Tourism Performance of Balkan Countries: Travel and Tourism Competitiveness Pillars as Determining Factors

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Abstract

The main purpose of this study is to unravel causes of tourism performance in Balkan countries. In order to examine this relationship, we used Travel and Tourism Competitiveness Pillars as independent and international tourist arrivals and international tourism receipts dependent variables. Regression analyses conducted produced results that air transport infrastructure, health and hygiene, safety and security, and human resources variables have explanatory power in explaining the variation in tourism performance of Balkan countries.

Keywords: Balkan Countries, Tourism Performance, Travel&Tourism Competitiveness Pillars, Strategic Management

Introduction

Significance of tourism industry for countries' macroeconomic growth and stability has been recognized in today's highly volatile global economy. To be able to succeed this aim, policy makers at macro-level are aware of importance to create competitive industries and increase tourism performance of their countries. This study aims to unravel causes that have the potential to explain variation in performance of tourism industry. Authors used Travel and Tourism Competitiveness pillars as potential causes of this variation in tourism performance of Balkan countries.

Literature Review

As Vietor (2006) indicates that in national level, as a results of globalization, countries compete each other in terms of markets, technology, skills, and investment to grow and raise their standards of living. The long term economic performance of countries mainly depend on their success in creating and sustaining sectors that produce revenue and employment. In order to obtain long-term sustainable economic performance, countries try to develop competitive advantages over other countries. Before focusing on competitiveness at national level, we would like, first, to introduce a broader definition of competitiveness. World Economic Forum (2011) defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be earned by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is one that is likely to grow faster over time and exhibit a superior performance.

As Reed and DeFillippi (1990) indicate "superior performance is correlated with competitive advantage, and achieving an advantage will automatically result in higher performance" (pp. 90). Early studies of competitiveness stated that competitiveness resulted from certain key driving factors, such as capital, trade, investment, government spending, foreign direct investment, etc. New trade theory accentuates on factors like skilled labour, specialized infrastructure, netwoks of suppliers, and localised technologies. In addition to macro-economic approaches cited above, some micro-economic perspectives are also available. One of the most influential perspective is Porter's *cluster theory*, which posits that geographical clusters encourages both operational effectiveness and distinctive strategic positions (Porter 1990). Another perspective is the Shumpeterian's *theory of entrepreneurship*, which focuses on the role of technology and entrepreneurs in creating innovation and learning. In order to create a competitive position, there are three broad groups of factors [(European Commission, 2003: Martin (edt)]:

- Infrastructure and accessibility
- Human capital
- R&D and innovation, demography.

By the similar token, the competitiveness of Balkan countries and increased cohesion between the regions of the European Union (EU) are main interests of European Commission. This interest increased studies on Balkan countries in terms of development and creating competitiveness (Celebioglu, 2011; Develioglu and Kantarci, 2012; Kantarci and Develioglu, 2012). Creating stabilized and strong national economies in the Balkan region will potentiate the EU's growth, employment and political stability. Contemporary global economic crises increase the need for competitive economies in Balkan and the EU region. To balance their countries' macroeconomic figures, governments need to develop certain industries. In this sense, tourism has been valued as a good source of foreign currency and employment. WTTC's 2012 report indicates that over the next ten years tourism industry is expected to account for 1 in every 10 jobs on the world. To succeed this goal, countries should increase their capabilities and develop a competitive position to attract more tourists from around the world. In this sense, tourism performance can be evaluated as a result of using competition tools effectively in order to create a sustainable macroeconomic environment.

In this study, we use World Economic Forum's (WEF) classification of Travel and Tourism Competitiveness pillars to examine resources that are expected to influence tourism performance in Balkan countries. Tourism performance is measured by two variables: International tourist arrivals and tourism receipts (Tourism performance of Balkan countries portrayed at Table 1).

Table 1: Tourist Arrivals and Tourism Receipts for Balkan Countries

Country	Tourist Arrivals* (thousands)	Tourism Receipts* (US$ millions)
Albania	1833	1793
Bosnia and Herzegovina	332	797
Bulgaria	5749	4465
Croatia	8961	1051
Greece	15861	15763
Macedonia	267	240
Montenegro	1065	747

Romania	7942	2117
Serbia	687	1072
Slovenia	1892	2768
Turkey	30058	24602

*Mean scores (2007, 2008, 2009, 2011).

In addition, we measured competitive factors in tourism industry using WEF's classification of Travel&Tourism competitiveness factors, which consists of three subindexes and 14 factors that measure these subindexes that are reported below:

- T&T regulatory framework

(Policy rules and regulations, Environmental sustainability, Safety and security, Health and hygiene, Prioritization of Travel & Tourism)

- T&T business environment and infrastructure

(Air transport infrastructure, Ground transport infrastructure, Tourism infrastructure, Information and Communication Technology (ICT) infrastructure, Price competitiveness in the T&T industry)

- T&T human, cultural, and natural resources

(Human resources, Education and training, Availability of qualified labor, Affinity for Travel & Tourism, Natural resources, Cultural resources)

Methodology

In this study, the Balkans comprises the following countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Montenegro, Romania, Serbia, Slovenia, and Turkey. In order to investigate the impact of Tourism & Travel competitiveness pillars on the performance of Balkan countries, we obtained the data from The World Economic Forum's "The Travel and Tourism (T&T) Competitiveness Index" for the years between 2008-2011 that is, currently, the only available data. To reveal the relationship between aforementioned independent and dependent variables, we performed two-separate multiple regression analyses and obtained some useful insights, which are reported below.

Findings

The first multiple analysis results, in which tourist arrivals is used as dependent variable, reveal that *air transport infrastructure and health and hygiene* pillars are three variables that have the potential to influence the number of tourists to visit Balkan countries (see Table 2). The second multiple regression analysis results indicate that *air transport infrastructure, safety and security, and human resources* have impact on international tourism receipts among the aforementioned fourteen competition factors.

Table 2: Regression Analysis Results for Competitiveness Pillars and International Tourist Arrivals

Independent Variables	Beta	Significance of *t*
Constant	-1322.054	
Air transport infrastructure	0.838	0.000
Health and Hygiene	-0.318	0.004
R^2	F	Significance of F
0.62	33.235	0.000

*Dependent variable: International tourist arrivals

As it can be inferred from Table 2, out of 14 competition pillars, only 2 of them have a statistically significant impact on the number of international tourist arrivals, which are air transport infrastructure and health and hygiene. The model is significant at 95% significance level (F= 33.235; p= 0.000; R^2= 0.62). Analysis results reveal that the most influential variable in determining the number of international tourists is air transport infrastructure (Beta= 0.838; p= 0.000), which alone accounts for 53% of variance in the dependent variable. The second variable, health and hygiene (Beta= -0.318; p= 0.004), which accounts only 9% of variance in the dependent variable. The negative relationship between health and hygiene and international tourist arrivals can be explained with the global economic crises that resulted significant downturn in, almost, all the national economies.

Table 3 portrays regression analysis results for the relationship between competitiveness pillars as independent variables and international tourism receipts dependent variable. Results reveal a statistically significant relationship between dependent and independent variables at 95%confidence level (F= 27.825; p= 0.000; R^2= 0.68). 3 independent variables were found to have an impact on international tourism receipts, which are air transport infrastructure (Beta= 0.873; p= 0.000), safety and security (Beta= -0.235; p= 0.015), and human resources (Beta= -0.189; p= 0.048). It can be inferred from findings that the most influential independent variable on dependent variable is air

transport infrastructure, which accounts 60% variance in dependent variable. In addition to this finding, negative relationships observed between safety and security and human resources pillar and international tourism receipts. A detailed discussion on these results will be made at conclusion part of this study.

Table 3: Regression Analysis Results for Competitiveness Pillars and International Tourism Receipts

Independent Variables	Beta	Significance of *t*
Constant	28739.807	
Air transport infrastructure	0.873	0.000
Safety and Security	-0.235	0.015
Human resources	-0.189	0.048
R^2	F	Significance of F
0.68	27.825	0.000

***Dependent variable:** International tourism receipts

Discussion

In order to examine the impact of competitiveness pillars on tourism performance of Balkan countries, we conducted two regression analyses and found that certain competitiveness pillars have capacity to explain the variation in tourism performance. It has been found that the most significant variable to influence tourism performance is air transport infrastructure, which has a strong explanatory power for international tourist arrivals and international tourism receipts. Because air transport infrastructure consists of quality of air transport infrastructure, available domestic and international seat kilometers, airport density, number of operating airlines, and international air transport network; it creates accessibility for travelers to reach destinations. Accessibility is a desired condition for travelers because it results timeliness, comfort, easiness and affordability when they choose a destination.

Addition to air transport infrastructure variable, other independent variable to explain the variation in dependent variable are health and hygiene, safety and security, and human resources, which have a negative relationship with tourism performance variables. Likely reason for this may hinge on current global crises period that Balkan countries, especially Greece, experience. Because conditions in health and hygiene, safety security, and human resources are determined by governments, at crises period budgets for these services are reduced and the quality is diminished. At national and

firm- level, investments in human resources have been made by allocating budget to realize staff training, availability of research and training services, quality of educational system, hiring and firing practices, ease of hiring foreign labor, etc. Thus, budget cuts in human resource applications would decrease the quality of services provided and have the potential to negatively influence international tourist visits and tourism receipts.

These results imply that policy makers at national level should invest in air transport infrastructure more and avoid any budget cut. They should also avoid cutting investments in healthcare, safety and security, and human resources to have a sustainable competitive position in the long term. In order to increase services provided to visitors, at firm level, strategy makers should strengthen their competitive position by investing in human resources and health and hygiene conditions.

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Stairways to hell (Historical interventionism as a truly roots of current global economic crisis)

Abstract

Economic crisis in Euro- Atlantic economy came in it's fifth year although governments of developed countries have taken all measures that they were using more or less successfully in last 60 years. And while governments keep looking for more drastically measures to end the crisis, we believe that the time has come for analyzing this situation from another angle. That angle is integral historical analyses of actual roots of this crisis instead of shallow partial analysis that take place these days.

Key words: economic crisis, state intervention, free market

JEL classification: E02, E58, E6

Introduction

The historical background we would like to emphasize was created by series of measures made by governments of developed countries in the past. Those measure were driven by insatiable intention of these states to spread over private sector almost equally by taking its material goods (via direct and indirect taxes and abduct called "nationalization"), and by always increasing interfere in private jobs (through regulation explained by good intention).

Objective of this work is to, by exposing these historical circumstances, appoint at defectiveness of these measures and above all of wild spread opinion that financial liberations caused this crisis. Financial liberation, indeed, deepened this crisis, but it is not its real cause.

Different diagnosis of crisis leads to diametrical different measures. If we are right (and duration of crisis approves our attitude), measures taken this days by government of USA, EU etc, will, in the best scenario, delay crisis for few decades, after which its will come back in even worse shape. In the worst case (or maybe better) these measures will not bring results and crisis will continue.

Short list of events that made financial liberation be understood ads a "beast" given by time sequence (but exposed in sequence easier for reader to understand) is next:

- Taking away of a part of monetary freedoms from citizens through constitution of "privilege" banks (by the time this banks will became central banks) with an object to find

additional funds for covering budget deficit. These were nucleus of the first real root of crisis that came by putting powerful financial institutions under state influence;

- Putting OMO in function of covering budget deficit, which took place during 1920's;

- Accepting concept of active monetary policy by developed countries during 1930's as respond at great depression, what was attempt to neutralize economic cycles. Without them market economy can not function;

- Establishing agencies like Fannie Mae and Freddie Mac during 1940's which distorted free market arbitration on very important segments of financial market;

- Establishing IMF during 1940's what definitely slushed violent concept of central bank developments, and, even worse, change of IMF functioning concept during 1970's;

- Introducing of Basel standards on capital adequacy during 1980's, which indeed equalized "laws of the game" for a banks from developed countries. Yet, these standards where written so prejudiced that favored banks lending to governments have caused huge increase of public debts.

Establishing Fannie Mae and Freddie Mac – reaching or leaving American dream?

The beginning of present economic crisis is directly connected to the activity of these two financial institutions. While being quite common to talk about this crisis as debacle of economic liberalism, it is very interesting that those two agencies are *de facto*[1] state institutions.

Exactly, they were „invented" in 1938. (actually, at the beginning only Fannie Mae has been established), as a part of Roosevelt's "New deal". Their tasks were to by enable Americans with middle and lower income to buy real estate supporting of process of securitization[2]. This way sharply increased gross amount of loans to householders by granting a credit to those more risky clients.

That has been explained as a way to help "American dream come true". That dream meant that anybody who has been working hard and had good ideas could become reach, afford himself luxury life, including decent home.

[1] These two agencies were for a long time and *de jure* state institutions (100% state owned). Exactly, Fannie Mae were state owned in period 1938-1968, Freddie Mac in period 1969-1989. Than they where transformed in public companies.

[2] Securitization is a process of transforming pull of uniform loans in the securities. In this transaction pull of loans serves as income source for payoff to owner of securities.

Unfortunately, many presidentially administrations have understood this dream in socialistic way and replaced word "any" with "every". So, while American dream implied that there is no obstacles by class, race, religion and others basis to get reach and become someone important, establishing of these agencies were motivated by aspiration to allow to less competent Americans to become owners of high value real estates.

Although that sounds noble, we are all witnesses that last attempt to make everybody live reach (communism) ended with unprecedentedly outspread misery (is it necessary to remind that Yugoslav communists were assuring our citizens for a long time that "to day days everybody gets as much as it is possible but wery soon time will come when everyone will get as much as he wants (meaning unlimited).

That is why this attempt of American equalization by negation of social differences which market made had to end so badly. Besides series of scandals which just showed that private interests does not disappear with establishing of government agencies, but changes its shape in robbery under state protection without restrictions which free market made, this agencies insert serious mistakes in American financial system.

Overall, existence of these institutions motivated banks to grant credits to objectively bad clients calculating that they will extricate them (credits) very soon through these agencies and earned on series of fees[3], while risk will be transposed on buyers of securities issued in this process. On the other hand, buyers of those securities thought that fact that those papers were issued with state agencies support means that they were low-risky. That explains very low interest rate on those securities, just a little higher than at USA Treasury bonds.

Granting credits to risky clients must come back to financial system soon or latter. This finally happened in 2007.

If there were not those quasi-state agencies, banks would never dare to grant credits to clients with so low solvency, while buyers of these securities would be much careful. In these circumstances nothing of this would happened, or at least crisis would be surpassingly smaller.

[3] Even after transfer of ownership right over credits from bank to another financial institution that would issue securities, banks usually continued to provide services like acceptance of annuities from borrower, money transfers, issuing of a guarantee etc. That is just a part of banks income from this transaction because even before this transactions become banks were already charge fee for working on granting credits, and after this transaction is over majority clients stay loyal to bank and use other banks services unaware that banks transfer ownership over them credit to another financial institutions.

To recapitulate, even these concrete reasons for beginning of crisis suggest that there cannot be question of some huge freedom. On the contrary, this crisis began because states heavily interfered in market processes.

Stabilization of financial system as negation of free market

Second process which, indeed, less directly but more drastically, brings to today crisis is attempt of negation of economic cycles through monetary intervention with declarative objective to stabilize financial system. History of this attempt is directly connected to experiences with Great Depression and fact that then President of USA Herbert Hoover rejected to intervene with expansionist monetary policy (although he took whole series of fiscal measures and public works). Because of this, even ingenious Milton Friedman convicted FED's passivity and claimed that, with more actively monetary police, this crisis would be just one of many minor crises in history. At another coast of Atlantic, Keynes developed macroeconomic tools and required more active economic police.

Consequences of those two men actions are that big majority of modern economists accept interventionism of central banks explained by financial market stabilization as something normal. There is no discussion any more does this occurrence distort free market mechanism to achieve economy equilibrium. Only discussions are *how much it should last*.

This is disappointing because all information indicates that free market mechanism is tricked during the crisis. For example, if you look for results of World banks research named *"Bank Ownership and Lending Patterns during the 2008–2009 Financial Crisis Evidence from Latin America and Eastern Europe*[4]", you will see that statistic dates unambiguous show that in developed countries supply of credits rises and interest rates fall during the crisis.

This appearance is apsolutely opposed to normal market logic. First of all, unavoidable part of crises is grown of non-performing loans (NPLs). By logic and low, credits with lateness over assigned time banks are obliged to take as expenditure[5]. If there are big amounts of them (bigger and bigger crisis brings to more and more NPLs) banks becomes scoring losses. In those moments banks have to

[4] Bertay A, Demirgüç-Kunt A, Huizinga H, „*Bank Ownership and Credit over the Business Cycle Is Lending by State Banks Less Procyclical?*" The World bank, WBS 6110, Washington D.C, 2012. pg. 15.

[5] *For example Banking agency of Republic of Srpska*: "*Decision on Minimum Standards for Banks' Credit Risk Management and Asset Classification"*, Official Gazette of Republika Srpska Number 12/03, 85/04, 01/06, pg. 7, http://www.abrs.ba/propisi/odlukeeng/DecMinStandBanksCredRiskMngmntAndAssetsClass.pdf,

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theoretical ways. First is to find many new quality clients who will regularly return credits and so earned enough money to banks to cover losses from bad clients. Chances for this to happene are in domain of science fiction. Second, and really only way is for banks to introduce more restrictive lending conditions including rise of interests rates[6] and so, via increase net interest rate spread compensate losses.

But, in practice, in countries which are capable to guide independent monetary police, this is not going on because of monetary authorities making available enormous amounts of cheap money to banks on which they could earn only if they would grant it to clients (often to same clients who are not returning previously taken loans).

While those authorities measures undoubtedly help for crisis to end earlier, question is how market could work at all when governaments take him oportunities to punish wrong activity of banks, businessmen or states, does not matter. This forms cycle in which banks are not punished for granting credits to bad clients. Bad clients are not punished for not returninig previously taken loans, but they continue to work on new and cheaper credits. State is even awarded with cheaper financing of budget deficit. It looks like wolves are saturate and sheep are ok. But, this is happiness in short time. In long terms, this police brings to uncompetitive business subject, and high inflation rates which additional devastate economic tissue of any societies.

IMF – superstructure on suspicious basis

Opinions that IMF and WBG are global bulwarks of liberalism are overspread. Although, this "new" IMF formed during last crisis it is not even by opinion such keynesian like Paul Krugman[7] is.

However, it is importance to notice that although IMF participate in defining of "Washington consensus", it is established and created as political organization on suspicious basis which support uncountable governments to avoid deserved punishment.

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[6] Every IMF reports for countries in Southeast Europe in 2009, 2010. anticipated that banks will tighten landing standards. For example: IMF County Report No 09/185, "*Republic of Croatia: 2009 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Croatia*", pg. 14, http://www.imf.org/external/pubs/ft/scr/2009/cr09185.pdf, date of access 14.11.2012, and

Country Report No 10/348: "*Bosnia & Herzegovina: 2010 Article IV Consultation, Second and Third Reviews Under the Stand-By Arrangement, Request for Waiver of Nonobservance of a Performance*

Criterion, and Rephasing of Purchases", http://www.imf.org/external/pubs/ft/scr/2010/cr10348.pdf, date of access 14.11.2012, pg. 13.

[7] Look for Paul Krugmans interview to journal Press published at 3. October 2012. (http://www.pressonline.rs/info/drustvo/bolna-tacka-srbije-nije-javni-dug-vec-konkurentnost, date of access 15. October 2012.)

When we are talking about disputable genesis of IMF we think first of all at concept of central banking which is wide spread today and which is in roots of IMF. Modern central banks are products of state need to collect disguised taxes by using (monetary) authority on their citizens.

To explain this claim we have to go back in the past for the moment. In this way unquestionable fact is that before central bank were established, commercial banks were institutions which issued their banknotes (*de facto* money of that time). Everyone had freedom to choose bank whose banknotes he would use. That had made pressure on banks to work responsibly because every suspect in their solvency would bring to abandoning of their money.

This situation changed when contemporary rulers made such a mess[8] in public finance that there were no bank ready to grant state a new credit. Intendly to bring back any order in budgets, instead of decreasing of public spending, governments decided to use power by selling "rights" at issuing banknotes to some banks. This is how "privileges" commercial banks were established. These were normal commercial banks dealing with all kind of usual banking jobs but in exchange for beneficial credit to government they got right that their banknotes become "legal tender" at whole state territory (thus established currency). Shortly, some banks made deal with states which allowed them to using force become monopolists in issuing money.

This covering of budget deficit were paid with taking away part of monetary freedom which citizens used to enjoy, and, over all, this created background for manipulating with monetary police which practically did not exist before.

Citizens of some countries had fought against this process longer then others. For example USA was country without central bank up to the Civil war in 1862, so banknotes during this period were issued by more then 700[9] banks. However, governments used wars to establish central banks and co-opt management over them. So, almost all privileged banks stay privately owned all to the WW II. After allies victory even governments of developed countries nationalized central banks and, thus, joined fascistic and communistic countries which did that before the war.

USA stayed, for some time, more or less exception because FED stayed *de jure* in mixed ownership all to this days. But, to banks members of FED it was prohibited to issuie their money till money reforms in 1971. That is how, from five kinds of dollars in use up to 1960, today only once is left. This, closed to majority of Europe countries, USA by level of un-freedom.

[8]Bank of England, History/Timeline (http://www.bankofengland.co.uk/about/Pages/history/timeline.aspx) date of access 17. October 2012, Djogo M, "*Story about money: history of money and monetary police"*, RS Associations of Economists SWOT, Banja Luka, 2012, pg. 27.

[9] http://en.wikipedia.org/wiki/History_of_central_banking_in_the_United_States, date of access 18. October 2012.

But even in Europe still existing bright exceptions like Scotland and North Irish. These members of Great Britain obtained that Bank of England did not spread its monetary sovereignty over them. Since they represent developed areas, it is clear that what to majority people looks strange - to live without central banks and their money - is actually good for them.

Why we come out with this under subtitle connected with IMF?

Because, when IMF has established at the end of the WW II (as a part of same processes of taking over banking system by states) it anchored previous government violence! More precisely, IMF was imagined like central point in web of international monetary system constituted by national central banks (that imply that every country has its central bank and its currency). If Keynes proposal were adopted, situation would be even worse because IMF would become international central bank with full authorizations.

All those are just a part of problems with IMF. Second part of the problem is in fact that during 1970-s IMF lost clear mission of existence (in period 1946-1973. Aim of IMF was to help maintenance of fixed exchange rates). Instead of that, Fond became fireman who fight fire (by borrowing[10]) in areas where unresponsible governments caused mess with their short-sighted behavior. With this Fond encouraged governments on moral hazard and reduce market power by its intervention which created good soil for developing crisis including this current.

Basel standards – risk assessment methodology as instrument for supporting to states

Basel standards are one more instruments of regulation usually considered like instruments in service of globalism by establishing unique "rules of the game" for banks from all over developed countries which helps in forming "global players". This is explained by introduce of unique methodology to calculate capital adequacy to cover outstanding bank loans. However, manner in which risk weight were established could be described with "prosecutor are judging to me". That means that authorities involved in writing standards made deal to weight for all loans to developed countries should be zero (0), what means that risk at such borrow is same like store money in banks treasures! Otherwise said – for those loans banks do not have to hold any capital reserves.

This favoritism of "regulators" made banks to gladly grant credits to governments of developed countries (number of these "developed" grown rapidly). That granting continuous when amount of public debt cross 50% of BDP, than 100% and in some case even incredible 300%.

[10] In the very beginning IMF working principles defined that country could borrow just 25% of its quota. Rest of standby arrangement was or drawing resources which country previously paid to become member of Fond, or currency conversion. During 1980s this principles were change to allow Fond to borrow much more money to countries in trouble.

Shortly, if you were citizen, banks would never lend you so much money that you could not give back in reasonable period. If you are state, it is possible for you because same standards approve it. Point is clear. Smaller danger to stability of global financial system would represent system without any kind of regulation than this one. In that system banks would probable diversify states according to condition in their public bills. Thus banks relied on standards established by states what brought to crisis of public debts and consequentially crisis of banking system which were the biggest owner of that debts.

Even this did not affect authorities to turn over deregulation. In fact they are near solution which is tragicomic. So, states find that banks crisis could be over if they would recapitulate banks. Since public budgets are empty this recapitalization could not be done without new lending from banks to states. That brings us to situation in which we do not know any more who is sick and who is a doctor!

This nonsense is possible by Basel standards because, if banks would borrow to states which keep their credit rating high, that would not raise capital requirements for banks but it would give enough money to states to invest in same banks and so complied standards.

So after nationalization of central banks in the middle of XX century, at beginning of XXI century probable is particular nationalization of banking system what just show trend of "development" of so– called "capitalistic" countries!

OMO – Iron fist of interventionism in silky glove of liberalism

Open market operations are believed to represent market way of managing monetary police (on the opposite of administrative measures like minimal reserves are).

But, when we look behind a curtain, it is easy to see that market orientation of OMO is in a way of their implementation, while motives and consequences are same or even worse, then with administrative measures. This is not surprising for us because OMO were established as product of disguised interventionism in society which believed in liberal ideas.

The first country whose monetary authorities adopted OMO in greater scale was USA since 1914. In the beginning this operation was completely excluded from measures of monetary police and put in function of development of New York money market (artificial, administrative pushing of development of this market in order to become more competitive to then leading London money market). Since 1917 those operation were directly put in function of supporting USA Treasure to collect funds for financing the war, but even this was just an episode. Turnover happened in 1923

when Fed adopted OMO as major instrument of monetary police. In that moment states securities represented only 27.5% of asset in Fed portfolio.

Table no. 1 – Part of states securities in Fed portfolio

Year-end	Treasury securities	
	(dollars in millions)	(percent of total)
1915	16.0	19.8
1916	55.0	31.2
1917	122.0	31.4
1918	238.0	45.5
1919	300.5	80.8
1920	287.4	60.6
1921	234.1	61.8
1922	433.4	61.5
1923	133.6	27.5
1924	540.2	58.3
1925	374.6	50.2
1926	314.8	45.2
1927	560.0	64.4
1928	197.2	31.1
1929	487.3	67.4
1930	686.1	70.4
1931	774.6	78.3
1932	1,851.1	99.8
1933	2,435.3	95.7
1934	2,430.3	100.0
1935	2.430.3	100.0

Resource: Marshall D, „*Origins of the use of Treasury debt in open market operations: Lessons for the present*", Federal Reserve Bank of Chicago, 1Q/2002, Economic Perspectives p. 48.

As you can see, untill 1934 that percent has risen at 100%, which means that Fed directly subject monetary police to needs of fiscal police. And that is not all. Unlike earlier years when Fed bought/ sold securities at open market, that practice were abandoned very soon thru opening of its own broker (part of FOMC), and by making the list of accredited partners (it is not posible any more to any commercial actor become buyer/seller in transaction with Fed as it has been in the beginning).

Shortly, it is a long time ago since OMO become instruments which forced banks to finance budgets deficits and by that indirectly support development of public sector at prejudice of private sector. To paraphrase, OMO become iron fist of interventionism in silky glove of liberalism.

Instead of conclusion: return to lese-fair economy as only cure

We believe that processes which were previously explained clearly show that real cause of today crisis is in the rise of public sector which neutralise market and shark private sector. It is particularly easy to be seen in processes of establishing modern central banks, introducing of Basel standards and excepting of OMO as primary instruments of monetary police. Everyone of these processes were used to support states to finance ever growing expenditure.

Establishing of IMF and adopting of active monetary police were just attempt of "fire fighting with gasoline", i.e. attempt of solving problems which governments made with their interference in economic processes.

That is why only long–term sustainable development is in radically reducing of state interference in economy by decries of state authorizations and al kind of regulations.

This would clarify real conditions in public finance and competitiveness of economy. In the beginning, it would, probably, cause deep economic and social crisis because "all bills would get at charge", but in the same time, it would release countries from ballast of interventionism they carry–on for centuries and which brake their development.

At the end, one truly lese-fair economy is not hard to imagine. In that economy state would hold just few essential competences like defense, public order, legal system, primary education and basic service from secundary medical care. That would be sociaty without central banks, and buying of states securiates would take place without government forcing. Banks would grow and sink, but it would not cause deep crisis because they would develop mechanism of protection like deposit insurence agencies are today (example of those agencies are New York Safety Fund in USA during 1837-1862 period) or Agencies for guarantee of banknotes (like Boston's Suffolk Bank from the same period are).

Short period of crisis would change with periods of prosperity. Redistribution from outstanding to less capable would take place at willing basis, what would return economy to its primary definition "maximizing output with limited resources" what is not cause right now.

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The Impact of Infrastructure Investments on Regional Economic Performance: A Meta-Analysis

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Abstract

Public infrastructure investment expenditures contribute through the multiplier impact in the short term. Productivity improvements of these expenditures also contribute to the production and employment in the long term. In this context, these types of infrastructure expenditures enable public policies to influence the long-term growth and productivity at the regional level. Particularly following the study of Aschaur (1989), many studies have been done in order to determine the impacts of different infrastructure types on national and regional economic growth by using various ways and methods. In this study, the impact of infrastructure investments on regional economic performance have been investigated by using the meta-analysis methodology. Meta-analysis is a method used for quantitatively aggregate primary research studies in a particular field. A large collection of primary studies from a particular body of literature is surveyed in accordance with predefined coding protocols and procedures. Studies included in a meta-analysis need to be empirical and should examine similar and/or same constructs and relationships. In the current study, we have examined the relationship between infrastructure investments and regional economic performance, thus included the studies that examined this relationship. The paper search process yielded 87 studies, which were then reduced to 75 since some studies had inadequate data or some studies did not examine the relationship of interest in this study. After coding these studies based on pre-defined rules and procedures, we have done a logistic regression analysis in order to test the impact of several study characteristics (country, approach, publication type, and publication year)

on the outcomes of the individual research studies. Results reveal that studies conducted in EU countries produce more positive results as compared to the studies conducted in the USA, and studies using production function approach report more positive results than studies examining spillover effects. Results also show that studies published after year 2000 report more positive results as compared to the studies published before year 2000.

Keywords: Public infrastructure investments, Private investments, Regional income, Regional economic performance, Meta-analysis

Introduction

Today, the notion of regional competition shapes regional economic policies, and these policies improve regions' competitive power, in addition to channelizing the resources into the underdeveloped regions and supporting some of the activities in underdeveloped regions. Infrastructure investments, which can be evaluated as among these policy instruments, can be a determining factor in the choice of the facility location and can increase the output as well as private sector investments through increase in private capital and labour productivity. Furthermore, increase in public infrastructure investment expenditures will promote the demand through the multiplier impact in the short term and price decreases caused by the productivity improvement in infrastructure investments in the long term; this demand impact will cause an increase in the whole production and employment. At the same time, public infrastructure investments afford cities, regions, and nations the opportunity to improve their competitive structures, due to the fact that they are able to decrease transportation and production costs.

Aschauer (1989), who aims to identify the impact of infrastructure investments on growth and productivity, included infrastructure investments as public capital into the production function that was created based on the U.S.-based data between 1949-1985, and he stated that some of the public infrastructure investments played a significant role in economic growth and productivity. Moreover, he concluded that there was a strong relationship between the public capital and productivity improvements, and the contribution of the public capital in the productivity improvements was greater than the private capital during the period of 1949-1967. Similarly, Munnell (1990), by using state level data between 1970 and 1986, identified that a 1% increase in public capital leads to an increase of 0.15 in national output, while supporting the findings of Aschauer in the study that used national level data. It was further argued that, based on this coefficient, marginal productivity of the public capital was close to the private capital. Holtz-Eakin (1994), on the other hand, attempted to identify the impact of public capital in the form of infrastructure investments on productivity by using the data from 1969-1986 in 48 U.S. states. In this study, it was argued that studies in prior literature reported a positive association between the public capital and private sector's productivity; however, these studies did not consider the characteristics specific to the states.

The study further stated that the impact of public capital on private sector productivity was not considerably significant in the case that these characteristics were considered. These findings increased the number of the applied studies conducted on this topic. Some of these studies considered national economies, while others focused on the impact of infrastructure investments on regional economies.

In this study, the impact of infrastructure investments on regional economic performance have been investigated by using the meta-analysis methodology. Meta-analysis is a method used for quantitatively aggregate primary research studies in a particular field. The next section details the theoretical framework and the third section provides information with respect to the impacts of infrastructure investments on regional economic performance. Section four presents the research methodology of the current study. Meta-analysis methodology and the steps taken in the meta-analytic process have been articulated in this section. Section five provides the results of the data analysis and section six concludes this research study.

Theoretical Framework

There are many studies with respect to determining the economic development impacts of various infrastructure investments on growth and productivity, while infrastructure investments are seen as a way of impacting the long-term growth and productivity at the regional level. It should be noted that these studies apply different definitions for infrastructure investments. Gramlich (1994, p. 1177) defines infrastructure investments as natural monopolies that require large capital intensity, such as highway and other transportation means, water and drainage lines, and communication systems and also alternatively defines and stresses that it is necessary to focus on the tangible capital stock possessed by the public sector. The expanded version of this definition also includes human capital as well as research and development investments.

Hansen (1965, p. 151) divides infrastructure investments into two categories – economic and social infrastructure investments – while economic infrastructure investments are identified as highways, gas and electricity production, treatment and drainage systems, bridges, ports, river transportation systems, and irrigation systems that support direct productive activities or provide mobility to economic goods. Social infrastructure investments, on the other hand, are denoted as schools, health and sports facilities, and rubbish and waste collection centers that improve the human capital and include social services. Similarly, Capello (2007, p. 177) divides public infrastructure investments into economic and social infrastructure, while economic infrastructure investments are described as transportation means, highways, railways, airports, and electricity generation centers that increase economic productivity. Social infrastructure investments, on the other hand, are defined as hospitals, schools, universities, and public housing projects; however, these investments directly

influence human capital and the quality of life, while the production impact can only occur in the long term.

Eberts (1990, p. 16) state that public infrastructure investments have two characteristics that distinguish them from other investment types. The first is that public capital investments provide a central pillar for economic activities, while the second is the positive externalities created by them. Positive externalities involve at least three justifications. Primarily, some of the public infrastructure investments, such as highways, provide services that cannot be excluded. The users share these facilities without reducing other users' benefits to some extent. Secondly, infrastructure investments, such as water treatment and pollution reduction facilities, are able to reduce negative externalities, such as pollution produced by the private sector. Finally, numerous infrastructure investments including energy generation facilities, communication, and highways, demonstrate the characteristics of the economies of scale. With the inclusion of more users into the system, large costs of these investments will be distributed to many users, and the unit production costs will continuously decrease.

The theories of place of incorporation and theories of regional development and growth, which attempt to explain the spatial distribution of economic activities and regional development, stress that the state's infrastructure investments contribute to regional development. For instance, Porter externality, evaluated as a kind of dynamic externality, refers to the fact that productivity improvement can be achieved when buyers and sellers in a cluster utilize the infrastructure investments and educational programs of the state and other public institutions (1998, p. 83). Furthermore, Porter (2000) emphasizes the significance of the public institutions, infrastructure investments, and public arrangements in the improvement of regional competition and clustering. According to export-based theory, which is a regional development and growth theory, North (1955) divides regions' sector-specific structures into two, export-based and residentiary sectors. North states that, in export-based sectors, which are determinative of regional growth, the evolution of exportable goods is dependent on the comparative advantages that are reflected by relative production costs. North adds that the activities of central and local governments inclined toward the growth of transportation and other infrastructure may improve the competitive position of regional export by reducing the cost of transportation and other expenses. Likewise, in the growth pole approach brought to the agenda by Perroux, it is noted that the pole is able to provide economic and social infrastructure investments, which may draw attention (Capello, 2007). In the cumulative causality approach pioneered by Myrdal (1957), it is argued that developing regions will pull the efficient production factors of the other regions, which will lead to growth in developing regions and a continuous recession and decline in underdeveloped regions. This will, in turn, give rise to inadequate transportation, education, and health infrastructure in underdeveloped regions.

Barro's approach, which is in the context of endogenous growth models, states that efficient public infrastructure expenditures increase factor productivity (Barro and Sala-i Martin, 1995).

Impacts of Infrastructure Investments upon Regional Economic Performance

Impacts of infrastructure investments upon regional economic performance are generally determined through variables of regional production process, production costs private sector investments, employment and externality (Munnell; 1990; Rosik, 2006; Romp and Haan, 2007; Bröcker and Rietveld, 2009).

Role of Infrastructure Investments in the Regional Production Process

Public capital in the form of infrastructure investment is added to the production function along with capital and labour, and then through total factor productivity, the contribution of infrastructure investments to the output is determined (Aschauer, 1989; Munnell, 1990; Button, 1998; Percoco, 2004; Rosik, 2006).

Within the framework of the public capital hypothesis -which argues that decreasing public capital stock will harm productivity- developed by writers such as Ratner, Aschauer, Munnell, Deno and Eberts; Tatom (1991: 3) also suggests that the public capital stock in the form of infrastructure investments might increase the output both directly and indirectly. According to this hypothesis, the direct impact stems from the fact that the marginal productivity of the intermediary services or public capital services provided by the public capital to private firms is positive. The indirect impact, on the other hand, emerges from the assumption that public capital and private capital are complementary in production.

Impact of Infrastructure Investments upon Costs

In the cost function approach, the productivity effect of public capital in the form of infrastructure investments is measured through the notion of cost saving. The fact that the role of factor prices in firms' decision-making processes is ignored in the production function brings forward an alternative; the cost function approach. While inputs and outputs are internal variables in the cost function, factor prices is an external variable. The main purpose in this approach is to determine the effect of a rise in public capital stock on output costs (Rosik, 2006).

Seitz and Licht (1995) maintain that the cost saving effect of the public services provided by public capital stock in the form of investment as a free production factor to firms becomes a current issue as the demand for private inputs is adjusted. In addition, since public infrastructure investments are capable of decreasing transportation and production costs, they are seen as instruments of improving competitive structures of cities, regions and countries. According to Guild (2000), infrastructure investments may interact with other inputs and render them more productive. If these infrastructure investments complement other inputs, increased public investments may attract private capital into the region. If infrastructure investments substitute private inputs, increased public investments may decrease the cost of one or both of capital and labour. Results of various studies that examined the effects of infrastructure investments on costs are given in the table below.

On the other hand, McCann and Shefer (2004) suggest that –when trade barriers and tariffs are ignored- developed firms face two main types of operational costs: transportation costs and communication costs. Advancements in communication infrastructure and technologies decrease the real cost of communicating with different distances, improve the efficiency of the control of spatial activities, and facilitate the coordination required for spatial arrangements of activities. Besides, the transportation infrastructure emerges as a critical factor for the internationalization of regional economies and their competitive performance; and the advancement in the transportation infrastructure influences both production and household consumption by decreasing transportation costs and durations (Rietveld and Nijkamp, 1992).

Impact of Infrastructure Investments upon Private Investments

Another role of infrastructure investments in the regional production process is their effect on private investments. Two opposite effects mark this process. On the one hand, public capital increases the productivity of private capital, increases rate of return, and attracts more private sector investments. On the other hand, public capital substitutes private capital and thus decreases private capital investments. Romp and Haan (2007) stress on the complementariness and crowding-out effects between public and private capitals, and argue that public capital might elevate private investments by increasing the marginal productivity of private labour and capital. According to them, alternatively, the complementariness effect between public and private capital might be realized through adjustment of costs. The quality and accessibility of public capital can influence certain costs of firms during investment periods. For example, a better linking road will decrease the costs of establishing a new firm or transportation costs. The fall in production costs and the

expectation of a rise in revenues will positively affect private investments. The crowding-out effect, on the other hand, emerges when the private capital expects low rates of return and the credit facilities of the private sector are declined due to the financing of public infrastructure investments with increasing taxes. In such a situation, the rise in the cost of capital might decrease private investments.

Impact of Infrastructure Investments upon Employment

As suggested before, public infrastructure investments have short-, medium- and long-term effects. The rise in the public infrastructure investment expenditures due to the short-term effect in the form of demand effect can increase local growth and employment depending on the Keynesian multiplier (Rosik, 2006). According to Martin (2000), this effect is felt more intensely in regions where unemployment is high. Button (1998), on the other hand, suggests that the notion of productivity is noteworthy in the potential effect of infrastructure investments on employment, and argues that this effect might present itself in two forms: The first form emerges through the relationship of substitution-complementariness between production factors due to the accessibility to infrastructure; whereas the second emerges through the contribution of infrastructure investments to competitive positions of regions or countries. Within the framework of the first effect; the possibility of realizing a certain level of production using less private inputs due to external inputs such as infrastructure investments can decrease both private capital and employment. However, productivity rises that can be created by infrastructure investments will boost demand as prices will go down. While the substitution effect will decrease the amount of labour, the demand effect will increase total production and thus increase the demand for labour. The price elasticity of demand is critical in the total effect of these factors. Yet another aspect of the issue pertains to interregional and international competition. For example, development in the transportation infrastructure will decrease transportation costs and thus incentivize interregional trade. In these regions, importation of cheaper goods in previously-protected industries increases competition as buyers can purchase at lower prices. While employment declines in the relevant industries in these regions, it is expected to increase in exporting regions. For this reason, as a consequence of development in infrastructure investments, employment will expand in certain industries whereas it will become narrower in others in the entire region. It is argued that the total effect can be unveiled by addressing other factors including the industrial structure.

Externality Effect of Infrastructure Investments

While externalities are seen as examples of market failures, they also play an important role in theories of economic growth. Infrastructure investments can be regarded as a form of externality that creates increasing returns to scale. Infrastructure investments in the form of a web of networks such as transportation infrastructure investments have a significant part in this externality. Transportation infrastructure investments not only increase productivity and output by making transportation easier, but also positively influence neighbouring regions (Rosik, 2006).

Externalities created by public infrastructure investments might emerge in different forms. Firstly, individuals indirectly benefit from regional infrastructure investments without even using them. These investments benefit their users directly by decreasing the cost of obtaining goods and services, or increasing the demand for them. The effect of this direct use is transferred to those who are not direct users. This effect emerges as the rise in the profits of local users of infrastructure investments returns to the local economy. In this case, the revenues of those who do not directly use infrastructure investments increase due to the rise in local demands of direct users. Therefore, the local output, employment and revenues are directly and indirectly affected. Similarly, new infrastructure investments not only contribute to the development of underdeveloped regions but also create local positive externalities by helping change local economic conditions (McCann and Shefer, 2004).

As suggested before, public capital in the form of infrastructure investment affects the output directly as the additional input of the production function, but it also increases total production through positive externality. That is, public capital is capable of indirectly influencing total production by influencing the use of private inputs such as labour and capital (Pereira and Roca-Sagales, 2003). In addition, the rise in infrastructure investments can decrease the costs of negative externalities of congestion that emerges as a result of high productivity and rises in concentration (Guild, 2000).

Research Methodology

As the method of data analysis, meta-analysis methodology was used in the current study. Meta-analysis is carried out for amalgamating knowledge in a specific academic field. The initial focus in such a case is to evaluate the status of the current knowledge in the field (Guzzo, et al., 1987). Meta-analysis is typically used to quantitatively aggregate research studies (Wolf, 1986). It can be interpreted as the quantiative review of the literature in a given academic field. It can be interpreted as a kind of survey research in which research reports and papers are surveyed instead of people. Based on predefined coding protocols and procedures, a large number of primary studies from a body of literature are "surveyed" (coded) by the coder(s). For a primary study to be eligible for inclusion, it needs to be empirical and have quantitative research findings. The studies should examine similar and/or same constructs and relationships (Hunter & Schmidt, 1990; Lipsey & Wilson, 2001).

In the current study, we have examined the relationship between infrastructure investments and regional economic performance, thus included the studies that examined this relationship. In order to identify the sample of primary studies, we have initially searched the bibliography of previously published review studies on the topic under discussion. We have also searched online databases for identifying the sample papers. This process yielded 87 number of studies, which were then reduced to 75 since (1) some studies had inadequate data or (2) some studies did not examine the relationship of interest in this study.

After collecting the sample of papers, each paper was coded based on the variables of the curreent study. In the context of the current study *Economic Performance* was used as the dependent variable, and *Country*, *Approach*, *Publication Type*, and *Publication Year* were used as the independent variables. The following table presents the variables and the values coded for these variables.

Table 1: Study variables and values coded

Variables	Values Coded
Dependent Variable	
Economic Performance	1: Study reported positive results 0: Study reported negative and non-significant results
Independent Variables	
Country	1: Study conducted in United States of America 2: Study conducted in European Union countries 3: Study conducted in other countries
Approach	1: Study used spillover effect

	2: Study used production function 3: Study used cost function 4: Study used other approaches
Publication Type	1: Published paper 2: Unpublished paper
Publication Year	1: Study published in 2000s 2: Study published before 2000

Binary logistic regression analysis was used for data analysis, as the dependent variable of this study (i.e. regional economic performance) was a binary variable. Using a logistic regression procedure, the binary dependent variable is regressed on the categorical and/or continuous independent variables. Such a methodology has been used in meta-analyses of clinical heterogeneity (Schulz & Altman, 1996), drug effectiveness in cattle (Peters, Martinez, & Cook, 2000), and payoffs from IT investments (Kohli & Devaraj, 2003).

The objective in this analysis was to predict whether or not the studies with respect to the impact of infrastructure investments on regional economic performance report positive outcomes. The following equations represents our logistic regression models, where p isthe probability of an event Y occurs and the term "p/(1-p)" is called odds ratio;

$$\textbf{Model 1: } ln[p/(1-p)] = \alpha + \beta_1\, COUNTRY + \beta_2\, APPROACH + e$$

$$\textbf{Model 2: } ln[p/(1-p)] = \alpha + \beta_1\, PUBTYPE + \beta_2\, PUBYEAR + e$$

Model 1 tests whether the country where the study was conducted affects the outcome of the study, and the approach used in the study affects the outcome of the study. Model 2 tests whether the publication type and publication year affects the outcome of the study.

Results

Table 1 and 2 report the results of testing two logistic regression models. In these tables we report several statistics: *Exp (B)*, *Wald* statistic, -2 *log-likelihood* statistic, model chi-square statistic, and *Hosmer-Lemeshow* goodness-of-fit statistic. *Exp (B)*, or *odds ratio*, is an indicator of the change in the odds which is the result of one unit change in the predictor variable. *Wald* statistic (b/SE_b), which is equivalent of *t*-test in linear regression, was used in order to test whether the predictor variable makes a significant contribution to the prediction of the dependent variable. The significance level

of the *Wald* statistic was denoted via an asterisk next to the *Exp (B)* values. -2 *log-likelihood* ratio (*-2LL*) tests whether the predictors of the model make a difference in predicting the dependent variable. A lower value indicates a better model fit. We would expect that the -2LL ratio would be less, as we add the predictors in the model. For this purpose, model chi-square statistic which is the difference between the -2LL ratios of the two logistic models was also reported. Statistically significant model chi-square statistic denotes that the predictors make a significant difference as compared to the base model. Finally, *Hosmer-Lemeshow* statistic was reported to ensure the goodness-of-fit. A *p*-value that is greater than 0.05 indicates that the logistic model's estimate for the data is at an acceptable level.

Table 2 reports the results from testing the Model 1, in which we test whether the country where the study was conducted affects the outcome of the study, and the approach used in the study affects the outcome of the study. Since we use categorical predictors, the results of the data analysis are composed of several contrasts. For the *Country* variable, the comparison between EU countries and USA is the first contrast, while the comparison between other countries and USA is the second contrast. For the *Approach* variable, the comparison between production function and spillover effect is the first contrast, the comparison between cost function and spillover effect is the second contrast, and the comparison between other approaches and spillover effect is the third contrast variable. Logistic regression results from Model 1 reveal that (1) studies conducted in EU countries produce more positive results as compared to the studies conducted in the USA (B=2.73; Wald=7.99; p<0.01), and (2) studies using production function approach report more positive results than studies examining spillover effects (B=2.78; Wald=8.34; p<0.01). Other contrusts for both *Country* and *Approach* variables did not significantly predict the outcome of the study.

Significant Wald statistics show that the predictor variables at issue make significant contribution to the prediction of the dependent variable. Model chi-square statistic is statistically significant (X^2=25.55; p<0.01) which denotes that the predictors make a significant difference as compared to the base model. Finally, statistically non-significant *Hosmer-Lemeshow* statistic (H-L=1.18; p>0.05) indicates that the logistic model's estimate for the data is at an acceptable level.

Table 2: Logistic Regression Results (Model 1)

Variables	*B*	Std. Error	Wald	Exp(*B*)
Country				
EU – USA	2.73	0.97	7.99**	15.35
Other – USA	20.11	40192	0.00	0.00
Approach				
Production – Spillover	2.78	0.96	8.34**	16.03
Cost – Spillover	21.72	14904	0.00	0.00
Other – Spillover	1.33	1.08	1.53	3.79
Constant	-1.68	0.86	3.81*	.019
-2LL	*46.65*			
X^2	25.55**			
H-L	1.18 (.98)			

* p < 0.05; ** p < 0.01

Table 3 reports the results from testing the Model 2, in which we test whether the publication type and publication year affects the outcome of the study Logistic regression results from Model 2 reveal that studies published after year 2000 report more positive results as compared to the studies published before year 2000 (B=1.46; Wald=5.30; p<0.05). Publication type did not have significant impact on the outcome of the study.

Significant Wald statistics show that the predictor variables at issue make significant contribution to the prediction of the dependent variable. Model chi-square statistic is statistically significant (X^2=6.91; p<0.05) which denotes that the predictors make a significant difference as compared to the base model. Finally, statistically non-significant *Hosmer-Lemeshow* statistic (*H-L*=0.01; p>0.05) indicates that the logistic model's estimate for the data is at an acceptable level.

Table 3: Logistic Regression Results (Model 2)

Variables	*B*	Std. Error	Wald	Exp(*B*)
Publication Type	0.55	0.73	0.56	1.73
Publication Year	1.46	0.64	5.30*	4.32
Constant	0.24	0.66	0.13	1.27
-2LL	*65.30*			
X^2	6.91*			
H-L	0.01 (0.99)			

* $p < 0.05$

Conclusion

In this study, the impact of infrastructure investments on regional economic performance have been investigated by using the meta-analysis methodology. Meta-analysis is a method used for quantitatively aggregate primary research studies in a particular field. Findings of the current study reveal that studies conducted in EU countries produce more positive results as compared to the studies conducted in the USA, and studies using production function approach report more positive results than studies examining spillover effects. Results also show that studies published after year 2000 report more positive results as compared to the studies published before year 2000.

Due to regional competition driven by globalization, it could be stated that the role of governments today in local economies focuses on increasing regions' competitive powers and providing regional development through regional productivity. Today, regional productivity has become an important concept along with regional equality in public regional economic policies. There exist debates and practical studies aimed at determining the impacts of regional economic and social infrastructure investments to be made by governments upon regional economies. These studies, which started

especially in the 1990s, generally try to demonstrate the regional productivity of public capital in the form of infrastructure investments. On the other hand, although some of these studies found different results and although it depends on the types of infrastructure expenditures made; it is suggested in the majority of these studies that economic infrastructure investments that can directly affect regional economies' production capacities and social infrastructure investments in the form of human capital investments that can increase labour productivity have direct or indirect –via externalities- positive impacts upon regional output, private sector investments, costs, employment, and the regional competitive power.

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Business Ethics from the Point of View of Corporate Social Responsibility in Strategic Management

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Abstract

This study consists of two parts. In the first part, some knowledge related to the basic concepts of business ethics within the context of corporate social responsibility and information about the importance of business ethics for businesses will be given. In the second part, a field research will be conducted on industrial business organizations managers to determine their perceptions about business ethics and then their opinions and thoughts will be assessed. To accomplish this goal, a questionnaire has been conducted on industrial business organizations managers to determine their perceptions and opinions about business ethics practices. The findings have been interpreted by statistical analysis using obtained data in SPSS computer program.

Keywords: *Strategic Management, Corporate Social Responsibility, Ethics, Business Ethics*

Introduction

Strategic management can be evaluated as a combination of strategy formulation, implementation and evaluation (Raduan, C.R. vd., 2009). The strategic importance of corporate social responsibility (CSR), is known by academics and many researchers some of whom are policy makers

and business leaders. Thus they can discover the potential strategic value in pursuing CSR policies (Dincer and Dincer, 2007)

As the number of companies formulating and founding their businesses strategies attending to CSR has grown significantly in recent years, it can be expected that this renewed interest in CSR would be reflected, both quantitatively and qualitatively, in the management and marketing literatures over the years. (Alcaniz vd., 2010)

Over the past decades, CSR has gained greater and greater importance as a corporate strategy corporations. A lot of concepts has arised around this phenomenon such as stakeholder theory that comes from ethics; shareholder value; corporate citizenship related to the political concept of citizen; corporate social performance related to sociology; and corporate codes of conduct. (Dobers, 2009) Corporate social responsibility refers to strategies of corporations carry out their business in a way that is ethical, friendly and beneficial to society in terms of development. (Maimunah, 2009)

Strategic management contains the analysis, decisions, and actions organizations undertake in order to create and sustain competitive advantages. This definition has got two main elements of the field of strategic management. Firstly, the strategic management requires three ongoing processes: *analysis, decisions*, and *actions*. In other words, strategic management is related with the *analysis* of strategic goals (vision, mission, and strategic objectives) along with the analysis of the internal and external environment of the organization. D*ecisions*, address two basic questions: What industries should we compete in and how should we compete? After analysis and decisions, a*ctions* must be implemented. Secondly**,** the basis of strategic management is the analysis of why some firms outperform others. Therefore, managers have to determine how a firm can compete with other rival corporations so that it can gain advantages that are sustainable over a lengthy period of time. For example, managers have to determine if the firm should position itself as the low-cost producer, or develop products and services that are unique. (Dess, 2005,http://www.sbaer.uca.edu/publications/strategic_management/pdf/01.pdf)

Arguments in the field of strategic management have focused in two main areas, the ethical and accountability responsibilities and the stakeholder approaches. The stakeholder theory provides the foundations of a strategic view of corporate responsibility issues and advocates a single strategic management framework. 'However, it can be regarded as another strand of strategic management theories and thus it doesn't attempt to define a single strategic management framework, which is the objective of this paper. This paper is therefore establishs a strategic management framework that could contribute from a methodological perspective to charting ways for corporate responsibility mainstreaming. (Katsoulakos and Katsoulacos, 2007)

Stakeholders can be defined as risk-bearers based on the argument that a stakeholder must have some capital at risk, either financial or human, and therefore has something to lose or gain.(Katsoulakos, 2007) There is growing evidence of the widespread use of CSR practices, but

there is selective evidence that the adoption management practices lead to improved organizational performances (Aguilera et al. 2007). The complexity in designing and implementing a CSR initiative may influence many organizational outcomes including ‘‘financial soundness; quality of products and services; corporate culture; ethical obligations; and innovativeness’’. (Cegarra-Navarro and Martınez-Martınez, 2009)

Literature Review And Hypotheses

Corporate Social Responsibility and Ethics

CSR is established on the concept that corporations have interrelationships with other interests such as economic, cultural, environmental and social systems because business activities influence the society and are influenced the same society. Scientific research into CSR, seeks to understand why the phenomenon is important; how and why it is being managed; how CSR may change in different context and have different consequences which disciplines contribute to our understanding of the character of these relationships; and the consequences that derive from the strategies and activities of the firms (Dobers, 2009).

CSR can be defined as‘ operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business’ This definition includes business decision making related to ‘ethical values, legal needs, as well as respect for people, communities and the enviroment. (Kotler and Lee, 2005)

Caroll has described the relationship between corporate social responsibility and ethics by pyramid which takes part below. (Carroll, 1991)

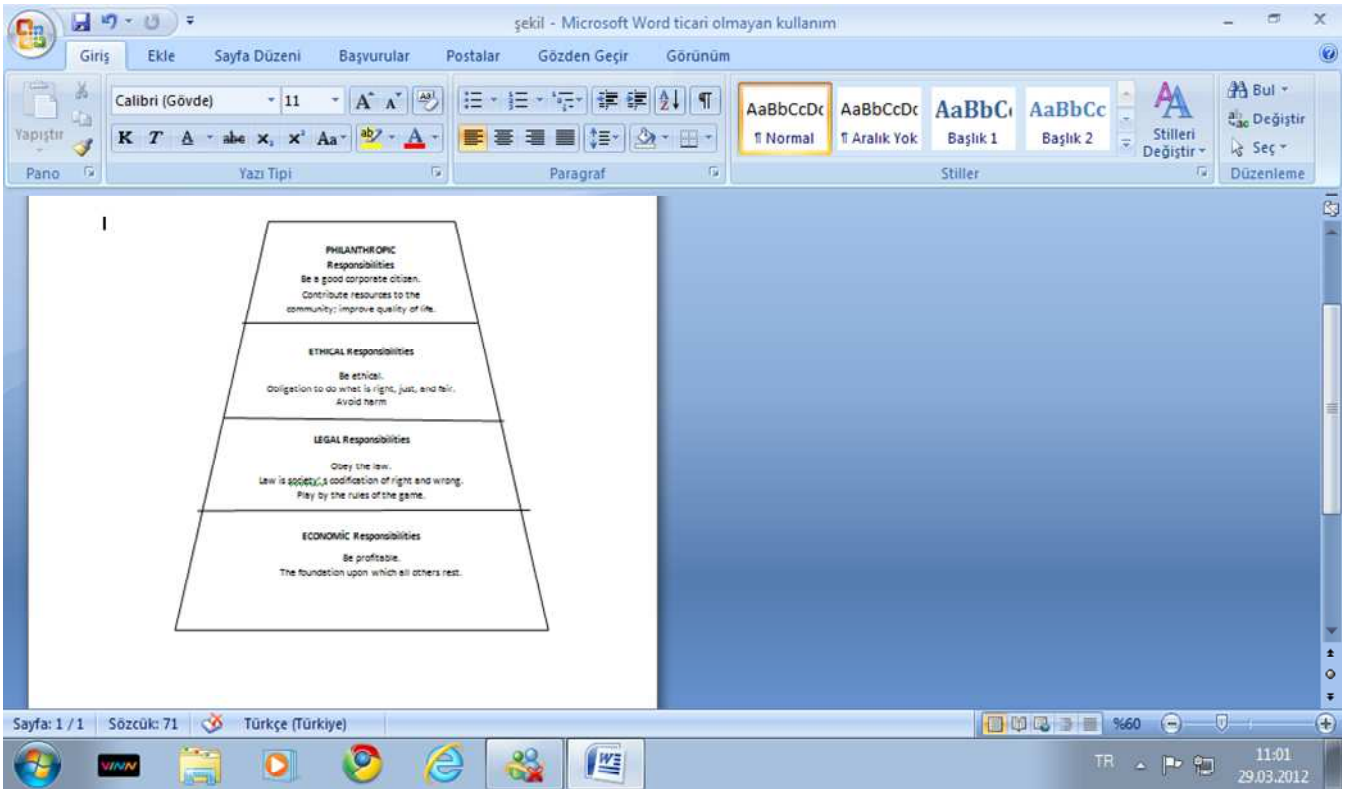


Fig.1.Carrol's Pyramid

Archie B.Carroll, 'The Pyramid of Corporate Social Responsibility:Toward the Moral Management of Organizational Stakeholders' Business Horizons July/August 1991,p.228

Business always carries a sort of baggage with it which is called ethics. When someone claims that something is 'good' or 'bad', 'right' or 'wrong', 'moral' or 'immoral' and so on, he or she is making some very firm assertions about other people's behaviour. (Jones and Parker, 2005) Ethics is commonly agreed upon practices of different moral principles or values. It focuses on the general nature of morals and the particularc moral choice an individual makes in relationship to others. It stands for the rules or standards that set organizational behaviour of ptofessionals. (Shakeel, 2011)

The term derives itsr meaning from the idea of 'custom'- that is, normal behavior. Specifically, 'moral' comes from the Latin word mores and 'ethical' from the Greek ethos. The term ethics will be studied in three parts; (1) descriptive morality (2) moral philosophy (ethical) theory and (3) applied ethics. Descriptive morality refers to actual beliefs, customs, principles and practices of people and cultures. The moral philosophy which is called ethical theory refers to the systematic effort in order to understand moral concepts and justify moral principles and theories. It analyzes key ethical concepts and groups them as 'right', 'wrong' and 'permissible'. It tries to build principles of right behavior both for individuals and groups. Applied ethics deals with controversial moral problems such as abortion, capital punishment, euthanasia and civil disobedience. (Pojman and Fieser, 2009)

Ethics, in a way is the science of behaviour. It deals with certain standard of human behaviour and morals. Ethics systematizes, defends and recommends concepts of right and wrong behavior. Ethics contains a set of values about what is right or wrong, true or false, fair or unfair, proper or improper what is right is ethical and what is wrong is unethical.
http://www.newagepublishers.com/samplechapter/001272.pdf) (21.03.2012)

2.2. Strategy and ethics

Strategy is a plan of action implemented by an organization to reach its goals, while ethics can be described as a system of moral values and principles that determine behaviour of an individual or a group. In a business enterprise, strategy reflects a company's pattern of decisions, commitments, and actions undertaken by the company to gain the advantages of competitiveness and generate profits for its owners. However, profit is not the only goal of a business. It must producee quality goods and services for consumers, continued jobs for employees, and taxes for government. In the process of implementing strategies, some conflicts arise among the goals of the company's various stakeholders such as stockholders, managers, employees, suppliers, government, and society. Managers often face ethical dilemmas while trying to solve the problem of conflicting goals. As a consequence of this kind of business debacles, numerous employees lost jobs, shareholders lost wealth, governments lost taxes, and society as a whole suffered. Therefore, merging company strategy with an ethical framework may guide managers in their duty of strategy formulation and implementation. (Kolb,2008)

Business Ethics

Recently, a number of well-publicized scandals resulted about deception and fraud in business and subsequent demand for improved business ethics and greater corporate responsibility. The debates highlighted the need for businesses to integrate ethics and responsibility into all business decisions. Business ethics issues influence the public opinion and attitudes towards business and can destroy trust. Ethical decisions are part of everyday life. Ethics itself is a part of decision making at all levels of people both employees and managers.. (Ferrell, Fraedrich and Ferrell, 2011)

Business ethics is commonly divided into two parts which are called normative and descriptive. Normative ethics resides largely in the part of moral philosophy and theology and it guides individuals as to how they must behave. Descriptive (or empirical) ethics, resides largely in the part of management and business and is concerned with explaining and predicting individuals' actual behavior (e.g., Donaldson and Dunfee, 1994; Trevin˜o and Weaver, 1994; Weaver and Trevino, 1994). (Fallon and Butterfield, 2003)

Business ethics is related to human interactions like sourcing, producing and marketing goods and services for profit, and include the relationships between business management and their employees,

the firm and its primary stakeholders, the business and its relationships to the community, government and society in general. (Poulton, 2005)

Table1. Timeline of Ethical and Social Responsible Concerns

1960s	1970s	1980s	1990s	2000s
Environmental issues	Employee militancy	Bribes and illegal contracting practices	Sweatshops and unsafe working conditions in third-world countries	cybercrime
Civil rights issues	Human rights issues	Influence pedding	Rising corporate liability for personal damages (for example cigarette componies)	Financial misconduct
Increased employee-employer tension	Covering up rather than correcting issues	Deceptive advertising	Financial mismanagement and fraud	Global issues, Chinese product safety
Changing work ethic	Disadvantaged consumers	Financial fraud(for example, savings and loan scandal)	Organizational ethical misconduct	Sustainability
Rising drug use	Transparency issues			Intellectual property theft

O.C.Ferrell, John Fraedrich and Linda Ferrell, Ninth Edition, Business Ethics: Ethical Decision Making and Cases, South-Western Publishing USA, 2011, p.11.

Philosophers have studied and written on ethics for years. Table 2 indicates some of the major ethical philosophies that can be applied to business ethics.

Table 2. Approaches to Ethics in Business

Teleological Actions are judged as ethical or unethical based on their on their results.

Egoism Actions are judged as ethical or unethical based on the consequences to one's self.

Utilitarianism Actions that maximize the "good" (create the greatest good for the greatest number) are preferred.

Deontological Actions are judged as ethical or unethical based on the inherent rights of individual and the intentions of the actor. Individuals are to be treated as means and not ends. It is the action itself that must be judged and not its consequences.

Justice Actions are judged as ethical or unethical based on the fairness shown to those affected. Fairness may be determined by distributive, procedural, and/or interactional means.

Relativism Actions are judged as ethical or unethical based on subjective factors that may vary from individual to individual, group to group, and culture to culture.

Marilyn M. Helmes, 5th Edition, Encyclopedia of Management, Thomson Gale, 2006, p. 263.

Development of Hypotheses

The scale used in this research is belonged to Randi L.Sims and A. Ercan Gegez who developed the questionnaire on Attitude Towards Businesss Ethics Questionnaire (ATBEQ) in 2004. In this paper, managers' business ethics perceptions have been investigated whether there are any differences according to their features or not in line with the literature.

H1.0: There is no difference between employes' general perception of business ethics according to their genders.
H1.1: There is difference between employes' general perception of business ethics according to their genders.
H2.0: There is no difference between employes' general perception of business ethics according to their ages.
H2.1 There is difference between employes' general perception of business ethics according to their genders.
H3.0: There is no difference between employes' general perception of business ethics according to their marital status.
H3.1: There is difference between employes' general perception of business ethics according to their marital status.
H4.0: There is no difference between employes' general perception of business ethics according to their education levels.
H4.1: There is difference between employes' general perception of business ethics according to their education levels.
H5.0: There is no difference between employes' general perception of business ethics according to their senioirty
H5.1: There is difference between employes' general perception of business ethics according to their senioirty

H6.0: There is no difference between employes' general perception of business ethics according to their managerial positions whether they hold or not.
H6.1: There is difference between employes' general perception of business ethics according to their managerial positions whether they hold or not.
H7.0: There is no difference between employes' general perception of business ethics according to their wage levels.
H7.1: There is difference between employes' general perception of business ethics according to their wage levels.
H8.0: There is no difference between employes' general perception of business ethics according to number of personnel
H8.1: There is no difference between employes' general perception of business ethics according to number of personnel

Methodology

Research Goal
In this survey we aimed to identify the ethics perceptions of industrial busineses managers in Sivas city, Turkey. To test the propositions, a field survey using questionnaires was conducted.
Sample and Data Collection
The population of this study is the managers of all industrial corporations that are 115 in Sivas city, Turkey. The list of these corporations were obtained from the Chamber of Commerce and Industry in Sivas. The questionnaire presented to all managers. However only 58 questionnaire could be analyzed and evaluated while the rest were eliminated because of some uncontrolable reasons.

Analyses and Results

Data obtained from the conducted survey have been tested by reliability analysis. Cronbach's Alpha values have been used for reliability analysis.The Cronbach's Alpha value is 0,764 which indicates the reliability of scales used in that survey.

Table3.Main characteristic features of industrial corporations managers

VARIABLES		Frequency	Percentage (%)
Gender	Female	5	8,6
	Male	53	91,4
Age	20-29	10	17,2
	30-39	15	25,9
	40-49	16	27,6
	50-59	14	24,1
	60+	3	5,2
Marital Status	Married	46	79,3
	Single	12	20,7
Education Level	Primary School	4	6,9
	High School	17	29,3
	Vacational School	9	15,5
	Undergraduate	23	39,7
	Graduate	5	8,6
Senirity	1-5	16	27,6
	5-10	13	22,4
	10-15	11	19,0
	15+	18	31,0
Managerial Position	Middle level	17	29,3
	Upper Level	41	70,7
Wage level	1000-2000	16	27,6
	2000-3000	9	15,5
	3000-4000	14	24,1
	4000-5000	9	15,5
	5000 +	10	17,2
Number of Personnel	Less than 50 personnel	34	58,6
	51-100 personnel	10	17,2
	101-150 personnel	5	8,6

	151-200 personnel	3	5,2
	More than 201 personnel	6	10,3

There are main characteristic features of industrial corporations managers in Sivas city at above mentioned table.

Table4. Results of the t Test Between Gender and General Perceptions of Business Ethics

	N	Mean	Std. Deviation	T	p
Female	5	80,4000	11,54556	-2,111	0,039
Male	53	92,3396	12,13061		

According to the table, significant differences have been found between gender and general perceptions of business ethics. (p < 0, 05)

Table 5.Results of the F Test Between Age and General Perceptions of Business Ethics

	N	Mean	Std. Deviation	F	P
20-29	10	88,9000	13,48621	1,388	0,251
30-39	15	90,9333	9,79407		
40-49	16	90,6875	13,96528		
50-59	14	96,5714	11,13355		
60 and more	3	80,0000	15,52417		
Total	58	91,3103	12,45090		

According to the table, significant differences have not been found between age and general perceptions of business ethics. (p > 0, 05)

Table6. Results of the t Test Between Marital Status and General Perceptions of Business Ethics

	N	Mean	Std. Deviation	T	p
Married	46	92,6087	12,86594	1,575	0,121
Single	12	86,3333	9,59482		

According to the table, significant differences have not been found between marital status and general perceptions of business ethics. (p > 0, 05)

Table7. Results of the F Test Between Education Level and General Perceptions of Business Ethics

	N	Mean	Std. Deviation	F	p
Primary School	4	100,2500	9,21502	0,796	0,533
High School	17	91,0588	11,40433		
Vacational School	9	91,8889	13,16667		
Undergraduate	23	91,0000	13,70799		
Graduate and Doctorate	5	85,4000	10,94532		
Total	58	91,3103	12,45090		

According to the table, significant differences have not been found between education level and general perceptions of business ethics. (p > 0, 05)

Table8. Results of the F Test Between Seniority and General Perceptions of Business Ethics

	N	Mean	Std. Deviation	F	p
1-5 Years	16	88,3125	12,83079	1,541	0,214
5-10years	13	92,3077	11,79961		
10-15 years	11	97,8182	8,88615		
More than 15 years	18	89,2778	13,74048		
Total	58	91,3103	12,45090		

According to the table, significant differences have not been found between seniority and general perceptions of business ethics. (p > 0, 05)

Table9.Results of the t Test Between Managerial Position and General Perceptions of Business Ethics

	N	Mean	Std. Deviation	T	P
Middle Level	17	88,8824	10,86786	0,956	0,343
Upper Level	41	92,3171	13,04308		

According to the table, significant differences have not been found between managerial positions and general perceptions of business ethics. (p > 0, 05)

Table10. Results of the F Test Between Wage Level and General Perceptions of Business Ethics

	N	Mean	Std. Deviation	F	p
Between 1000-2000	16	89,3125	11,32972	0,889	0,477
Between 2000-3000	9	91,3333	10,98863		
Between 3000-4000	14	95,7143	13,09391		
Between 4000-5000	9	86,5556	13,79412		
More than 5000	10	92,6000	13,49238		
Total	58	91,3103	12,45090		

According to the table, significant differences have not been found between wage level and general perceptions of business ethics.(p > 0, 05)

Table11. Results of the F Test Between Number of Personnel and General Perceptions of Business Ethics

	N	*Mean*	*Std. Deviation*	*F*	*p*
Less 50	*34*	*91,7941*	*12,97265*	*0,516*	*0,724*
Between 51-100	*10*	*90,1000*	*11,85514*		
Between 101-150	*5*	*95,8000*	*11,00909*		
Between 151-200	*3*	*93,6667*	*8,08290*		
More than 201	*6*	*85,6667*	*14,63785*		
Total	*58*	*91,3103*	*12,45090*		

According to the table, significant differences have not been found between number of personnel and general perceptions of business ethics.($p > 0, 05$)

Conclusion

This survey has been conducted on industrial business organizations managers to determine their perceptions about business ethics and then their perceptions have been assessed. The findings have been interpreted by statistical analysis using obtained data in SPSS computer program. The population of this study is the managers of all industrial corporations that are 115 in Sivas city, Turkey. Although the questionnaire were presented to all managers, only 58 questionnaire could be analyzed and evaluated because of some uncontrolable reasons. The scale used in this research is the questionnaire on Attitude Towards Businesss Ethics Questionnaire (ATBEQ) developed by Randi L.Sims and A. Ercan Gegez. Data obtained from the conducted survey have been tested by reliability analysis. Founded Cronbach's Alpha value indicates the reliability of scales used in that survey.

Significant differences have not been found between age; marital status; education level; seniority; managerial positions; wage level; number of personel; and general perceptions of business ethics. According to analysis, significant differences have been found only between gender and general perceptions of business ethics.Furthermore, no significant differences have been found among age groups; education level groups; seniority groups; wage level groups; number of personnel level groups according to Tukey test.

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Exporting Opportunities Provided by E-Commerce for Small and Middle Sized Enterprises (SMEs)

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Abstract

E-foreign trade, a way of commerce in which business contacts and activities such as international marketing and advertising are carried out through electronic media, without coming face to face increases competitive power of SMEs with its fast, economic structure enabling access to world market through internet. Due to opportunities provided and properties it has, e-foreign trade has become new way of commerce of the era and this way contributes to exportation of countries which is the most important source of income of countries. In this study we will present the results of a research conducted to analyze the e-foreign trade process of exporters and importers have experienced in Turkey. In addition current problems of the e-foreign trade companies in Turkey will be discussed and we offer some solutions to the problems in the light of the obtained findings. Finally we will suggest some new opportunities of e-commerce to improve the export of SMEs. As the research method the interview technique was chosen and we interviewed 30 actively e-foreign trader firms in the Turkish food sector from different cities.

Keywords: E-foreign trade, e-commerce, e-trade, foreign trade, SMEs.

Introduction

Internet technology enables SMEs to make electronic connection they wanted with big enterprises, contrary to the complex and restricted access structure of conventional systems, it also enables small enterprises have access ability throughout the world and make actions with co-partners

electronically (Güleş, et al., 2002). Therefore the most important issue business managers should be adapted is internet based Technologies and the main function of internet is e-commerce (Bulut et al., 2006).

E-commerce is accepted as a revolution for global business life (Boateng et al., 2008). Studies carried out on this issue put forward that e-commerce greatly improves commerce of goods and services among firms, firms in developed countries rapidly adapt their activities to e-commerce (Alam et al., 2011).

E-foreign trade which is accepted as the subset of e-commerce is a kind of e-commerce in which parties carry out their business contact about foreign trade and activities such as international marketing and advertising through electronic media. In e-foreign trade, conferences are carried out through internet, payments are done through banks and foreign trade transactions can be made without coming face to face.

The aspect where e-foreign trade differs from e-commerce is the necessity of conducting foreign trade transactions together with procedure apart from conducting it internationally. E-foreign trade requires on-line commitment, purchase and sales of goods result in an import or export. (U.S. General Accounting Office, 2002)

Methods of e-foreign trade

There are many ways SMEs refer to in e-foreign trade. It is possible to list the most common ways as Web sites, B2B abd B2C sites.

Web Sites: Existence and broadcasting on web is the basis of making business through internet and firms communicate with potential clients through corporate web sites (Kırcova, 2010). However, these sites are scarce in number and availability today. Therefore, firms sign their web site sup in search engine, give advertisement in related sites or increase their availability by recording their web sites and firm contact information into related on-line business guides or database according to sectors.

B2B Sites: These sites are channels which enable raw material producers, suppliers, sub-contractors, distributors and retail dealers to make commerce through on-line network (Fong and Hui, 2006) and mostly used by SMEs while doing e-foreign trade. B2B sites are preferable since they are easy to use, provide web pages specific to the firms, give support of e-mail and SMS; enable promotion of good or firm with multimedia features such as images or video and permit all these features to be conducted over single account. Moreover, it is important for exporting enterprises that B2B sites provide service in more than one language and address many users from all over the world.

B2C Sites: Although these sites are in the same structure with B2B sites, goods or services are purchased retail from a specific wholesaler or a shopping mall. Although these sites provide goods as retail, an export or import action takes place when suppliers are international.

Online Chat Programs: In foreign trade actions, using chat programs such as MSN, Skype minimize international telephone expenses, solve communication problems caused by time difference and enable conference from anywhere with internet connection being independent from sticking to an office.

Social Media Sites: Social Networks such as Facebook, Linkedin, Twitter which have millions of users with their commercial forums, portals, e-mail groups enable bi-directional communication are preferable methods by enterprises both for increasing interaction with clients and for making advertisement.

E- Catalogue: These are electronic catalogue in which every kind of information such as price, image etc. about goods and services produced by enterprises are included and sent to potential clients through e-mail. Thanks to e-catalogues, firms can inform their present or potential clients about both their enterprises and goods or services they produced. Since e-catalogues have no expenses such as printing or distribution it can be sent to all enterprises which have e-mail address. Therefore, it is preferred by SMEs who are in search of new client/market or who want to do a market study.

Opportunities provided by e-foreign trade to smes

Prominent opportunities provided by e-foreign trade to SMEs can be listed as such;

- Incomparable to traditional business models, e-foreign trade provides times, high speed, low cost, broad information, easiness, high efficiency and originality (Li and Duan, 2010)
- Conducting national and international commercial transactions electronically (in the sense of producer, saler, client, mediator, customs administration, insurer, transporter, banks and other public institutions) shortens the time between order and delivery of goods by using time efficiently, so the cost caused by time and inventory costs are reduced. Moreover, firms can participate in a tender announced by international institutions without having time or place restriction; can make use of services such as outsourcing or following, buying, fulfilling these tenders (Türkoğlu, 2004), opportunities such as foreign investing activities, agency or distributorship.
- By providing effective and cheap marketing channel to SMEs, it becomes possible for small enterprises to reach global market in the same level with big enterprises, enter in world markets without making high investment or expenditure (Kalaycı, 2008) so the competitive

power of SMEs increase.

- Necessary documents are prepared electronically so transactions are completed in short time with minimum mistake and without paying stationery expenses (Elibol and Kesici, 2004).
- Employers working in different locations gather in a virtual environment by means of newsgroups, chat rooms etc. and data sharing and participation is enhanced within the organization (Paksoy et al., 2003).
- Mediators are replaced with new cyber mediators or requirement for mediators is annihilated so SMEs are saved from these expenses. (Bakırtaş and Tekinşen, 2006)
- Foreign statistical information, reports and exchange information are easily accessed so market researches can be done without any expense.
- Transfer of new products and technology become easy, international consumer trends can be followed simultaneously so client and business portfolio can be created with international market research without any expense.
- Without the necessity of opening a store in foreign country, there is an opportunity to display products over virtual stores without any expense of stock or store.
- Through national or international information centers or social networking sites; consulting services such as exchange of views, sharing of experiences, generating solutions for problems can be done free of charge.
- Problems such as quota and embargo can be annihilated in some of the foreign trade transactions.

In a study carried out with firms who actively do e-foreign trade in Turkey, it is seen that the benefits received from e-foreign trade are listed as such (Kara, 2012);

- Opportunity to access many buyer or vendor; various types of clients
- To be able to access all the firms which are interested in the product produced or products whose marketing is being done.
- Easy and free access to information
- Saving on time and labor
- Being economic
- Increasing market share
- Reducing costs
- Broadening client portfolio
- Free advertisement and product promotion
- Capacity of persuading client in a short time and rapidly
- Enabling 7/24, limitless and rapid communication
- To be able to display products as if on a fair any time or any day of the year and without any expense

- Recording all the correspondences done with programs such as e-mail etc. and those having the evidential value
- Being independent from a specific place
- Being free of charge and easily available
- Having a dynamic structure

Results and suggestions

Economic activities to be carried out in virtual environment wear out advantages and disadvantages of small, medium and large-scale enterprises towards each other and improves competition environment between enterprises; in the beginning while it was required to be large-scale enterprise in order to involve in competition on the international arena; due to improvements in communication technology small-scale enterprises are given chance to compete in the world scale (Bakırtaş and Tekinşen, 2006).

E-foreign trade is the easiest and free way of doing business on global scale and getting into world markets for SMEs who conduct or want to conduct exportation. Due to e-foreign trade, limitation of time and place is annihilated in international commercial activities carried out over internet, expenses of communication are minimized, SMEs who have limited capital can find place in world markets and access new clients through virtual fairs and various online channels without consuming their resources.

Therefore, it is inevitable for exporting SMEs to adapt their activities compatible to e-foreign trade which is accepted as the new way of foreign trade of the era in order to increase their competitive power and access fast and inexpensive communication, advertisement and new markets.

Things that SMEs should do while transporting their activities to –foreign trade can be listed shortly as such:

- SMEs who have decided to do e-foreign trade should have a web site which has original, correct and plain content, can be opened rapidly and includes contact information and information about their activities.

- In order to increase their availability in internet, SMEs should register in B2B sites, online business guides or database which are compatible with their products and activities. It would increase interest to give correct information and supportive visual elements such as image, video of the product while registering in these sites.

- SMEs should prepare online catalogues which include images and product properties etc.; both

keep communication with current clients and inform new ones about firm and products.

- SMEs should follow related domestic and foreign sites, tenders, fairs, recent developments about sector, laws and regulations.

- They should follow internet sites and social networks while making R&D and market researches, analyze latest trends, views of clients and products which customers are interested in through these channels. Moreover, they should make use of knowledge and experiences of members in online platforms such as mail groups, commercial forums.

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In the Process of Global Crisis the Importance of Tourism in Decreasing RegionalD differences: an Evaluation of Kastamonu Province in Turkey

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Abstract

The possibilities of transfering sources to decrease regional development differences by public authorities have been limited in the process of global crisis. Kastamonu Province, that was studied in our study, has occupied 47_{th} place between 81 provinces according to socio-economic development ranking in The Ministry of Development* 2011 data. Using tourism potential of Kastamonu Province, that has important tourism potential according to SWOT analysis done in this study, will accelerate socio-economical development of province. In the process of global crisis, evaluating tourism potentials succesfully in less developed regions such as Kastamonu province will provide opportunity to remove regional development differences without using more public sources.

Keywords: SWOT Analysis, Regional Development Differences, Tourism Economy, Socio-Economic Development, Global Crisis

Introduction

The activation of tourism potential of a country will both provide probability to development of states which has intensive tourism activities in narrow content and contribute to country economy in wide content. Because of this reason, activation this potential of less developed states which have tourism potential will play important role in decreasing of regional development differences.

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* The State Planning Organization was reorganized as the Ministry of Development in June 2011.

In recent years, development policies shifted from national level to regional level because of the increase in importance of regional economics (Keskin and Sungur, 2010:272). New regional development concept aims activation of regional sources firstly. By the help of this policy, regions can be developed without national transfers and subvansions but with regional sources and assets (Keskin and Sungur, 2010:278; OECD,2009). Recently, by the global crisis transfering sources probabilities of public authorities have been limited for decreasing development differences and because of that reason new regional development understanding become more important.
In this context, the aim of this study is to reveal that provinces which have tourism potentials such as Kastamonu Province and regions can solve socio-economic problems such as unemployment and poverty easily when they use their potentials effectively.In our study, firstly the importance of tourism sector in terms of region and country economy is searched and then tourism potential of Kastamonu Province is evaluated by SWOT analysis and lastly the social economic situation of Kastamonu Province and possible utilities that can be provided by the development of tourism is dealt. In the results section we presented some proposals to this subject.

The General Importance of Tourism Sector In Terms of Region and Country Economy

According to World Travel and Tourism Council (2012), travel and tourism continue to be one of the biggest sectors of the world. In 2011, the total share of this sector was more than 6 trillion dollars, and this figure is about 9% of the global GDP. The sector created 255 million jobs in 2011(WTTC, 2012).
Today, one of the basic purposes of these countries is economic growth and improvement. It has been stressed in several academic studies that one of the actors to be used in attaining this target is the improvement of the tourism sector. For example, Bahar and Bozkurt (2010) reported as a result of their analysis that from the aspect of the developing countries, the increase in the tourism revenues in the long run has led to a higher rate of economic growth than it.Fayissa (et al,2007), states that the consumption of foreign tourists effects economic development positively in African Countries. Keskin and Cansız (2010: 23-24) reported that Turkey could overcome a lot of socio-economic problems on the way to economic development in case of using its existing potential for tourism.To them, thanks to the rapidly-growing tourism sector the income of foreign currency increases, while new facilities of employment will emerge and poverty will be diminished. Savaş (et al, 2010), expressed that the number of international tourists and their consumptions effects economic growth positively in Turkey. Bahar (2006) also revealed that incomes from international tourism effects Turkish economic growth positively in longrun. Çeken (2008:294) stated that as there is a positive correlation between the development of tourism sector and development, tourism sector could be an important tool in eliminating development differences between regions.

Travelling and tourism is an important facility in many countries of the world. Because it has both direct economic impacts and significant indirect and induced impacts. For example; the direct contribution of tourism on Turkish GDP is about %4,3 of GDP in 2011 while total contribution (plus indirect and induced impacts) is %10,9 of GDP. Addition to this, the direct impact of tourism and travelling to employment is %2,1 on total employment while total impact is (plus indirect and induced impacts) %8,1 on total employment (WTTC,2012). When we analyze the total share of travel and tourism sector in the GDP and employments, we can see that Turkey is below the average level of the world. For Example; while the world average of the total share of travel and tourism sector in the GDP was 14% in 2011, this rate was 16.5% in Greece. However, the same rate was only 10.9% in Turkey. In parallel, while the total contribution of travel and tourism sector in the employment was 13.6% on average in the world, this rate was 18.4% in Greece and it was only 8.1% in Turkey(WTTC, 2012).The fact that the contribution of the tourism and travel sector in Turkey both to GDP and employment is below the world average indicates that the country with a remarkable potential of tourism cannot use this potential efficiently.

According to report of TÜROFED (2010:7) Ekin Research group unit searched investment projects that are tied to incentive certificates byundersecretariat of treasuryand found that averagely 189.000 TL is needed to open a business place for employing one person in Turkey while in tourism sector this amount is such a low value like averagely 148.000 TL in tourism sector. However, this amount is 180.000 TL in health sector, 257.000 TL in cement sector, 264.000 TL in electrical vehicles, 308.000 TL in chemistry sector (TÜROFED, 2010:7). This situation makes tourism sector more important to improve tourism sector which provides increase in employment with less costs in global crisis process.

Therefore Turkey, which has a shortage of currency, which has a foreign trade deficit of approximately 72 billiard dollar according to the data of 2010 by TUİK (TURKSTAT), and in which the annual rate of unemployment is 9,8% according to the data of 2011 by TUİK (TURKSTAT), may have the chance to meet its need for currency with the development in tourism sector, as well as reduce the rate of unemployment by the increased direct and indirect opportunities for employment in the sector of tourism.

In Turkey, which struggles regional developmental differences, it has been reported in the Ninth Development Plan that tourism sector can contribute to the diminishment of the imbalances of development and income between the regions(DPT, 2007:27).It has been stated in the same plan that regional population can make use of the direct and indirect employment facility created by tourism as well as the economic, social and cultural benefits of the touristic activities. Besides,

emphasis has been placed on the necessity of practicing the tourism policies in such a way as to contribute to the enhancement of the life standards in the region visited (DPT, 2007:94). This is because it will be possible to improve the region by means of the tourism sector of the region if the existing tourism potential in the backwoods of the region can be utilized well. Therefore, improvement of tourism in a rural or backward area of the country will contribute to the reduction of the economic imbalances between the developed and underdeveloped regions of that country(Bahar, 2007:15).

Evaluation of Tourism Potential of Kastamonu ProvinceBy SWOT Analysis.

According to Karadeniz (et al, 2007:196) SWOT analysis is a technique which is applied to reveal opportunities and threats which are sourced from environment factors that can be both controlled and uncontrolled also strong and weak sides of region, country, investment, sector and firm which are products of their own characteristics.

SWOT analysis is generally known as a method which is built for helping to formulate stronger sides of firm's strategy. It is used to define strong-weak sides of firms and opportunities-threats in environment of firms. By the help of these definitions firms can develop strategies which put forward strong sides and overcome weak sides and evaluate opportunities and withstand threats (Arıöz and Yıldırım, 2012:184; Dyson, 2004:631-632; Türkkan, 2001:18). Erol and Ince (2012:56)states that most important part of strategic management is SWOT analysis. Türkkan (2001:17) states that Strategical Approach in industrial economics developed in two ways and one of them is SWOT analysis. The name of SWOT comes from capital letters of Strength, Weakness, Opportunities and Threats. Origins of SWOT analysis were found in Stanford Research Institute in the 1960s (Briciu et al, 2012:145).Determining strong and weak sides of firms creates fundamentals of SWOT analysis (Houben et al,1999:127).

SWOT analysis stands on internal (strength and weakness) and external (opportunities and threats) factors (Houben et al, 1999:126). Internal factors originally related with employees, brands, products, capabilities, innovative capability, customer relationships, facilities and infrastructure, efficiency-effectiveness and flexibility, size-location and accommodation. External factors are related with political, economical, social, technological and competitive environment which identify opportunities and threats (Dyson, 2004:632). Today, many firms are doing SWOT analysis to identify strength and weaknesses of firm with opportunities and threats in the environment before making decisions about strategic planning. Moreover, many academical studies are done by using SWOT analysis to investigate sectors (Çekerol and Kurnaz, 2011; Arıözand Yıldırım, 2012), firms and institutions (Dyson, 2004; Houben et al, 1999) etc.

Development of tourism sector can only be provided by new touristic firms in the region. So, why new firms should be set up? In this part we applied SWOT analysis for new Touristic firms in Kastamonu Province. Many studies used SWOT analysis to investigate tourism sector (Karadeniz et al,2007:196 etc.). In our study we applied SWOT analysis for potential firms in Kastamonu tourism sector, because we think that development in tourism sector can be enhanced with new enterprises in this sector. Related to this issue, KUZKA (2011:17) determines the aims of TR82 Region, which includes Kastamonu, Sinop, Çankırı, and one of these goals was to increase the weight of tourism in region economy.

Table 1. SWOT Analysis of Kastamonu Tourism Sector

Strengths	Weaknesses
1-) Hospitality of Kastamonu People and employees 2-) Natural Beauties and history of Kastamonu 3-) Adjacency to Safranbolu, Sinop Region. 4-) Developed Turkish Cuisine in Kastamonu Region 5-) Tranquil conditions without terror or other conflicts.	1-) Lack of qualified personnel 2-) Reluctance of Entrepreneurs 3-) Insufficient Capital Accumulation in Kastamonu for being entrepreneur 4-) Imperfect Advertisement 5-) Lack of firm experience
Opportunities	**Threats**
1-) Economic development and growth in Turkey 2-) Development of University 3-) Emigrants of Kastamonu Awareness. 4-) Touristic Trends of Turkish citizens. 5-)Kastamonu University School of Tourism and Hotel Managementand CideRıfatIlgaz Vocational High School.	1-) European Sovereign Debt Crisis (after 2008) 2-) Attack of Rival Regions. 3-) Conflicts in Adjacent countries (Syria, Iraq, Georgia) 4-) Transportation problems 5-) Low Demand.

Strengths of Kastamonu Tourism Sector

a. Hospitality of Kastamonu people and employees: Generally, employees are chosen from natives in firms. Anatolian people are known with their hospitality characters. Because of this character, employees in service sector provide good service to tourists and also other people behaves warmly to

tourists. This makes Kastamonu preferable for tourists. According to DPT (2006:14) hospitality of Anatolian people and Turkish culture is strength for Turkish Tourism.

b. Natural Beauties and History of Kastamonu: Kastamonu nature and history provides many tourism facilities. Some of these tourism facilities are religion tourism (Şaban-ı Veli shrink, Nasrullah Mosque and many others), Seaside tourism (Cide, Abana, Çatalzeytin, Bozkurt, Doğanyurt), Plateau tourism (Dereyayla, Olukluyayla, Suğlaetc.), Health Tourism (Giricik, Acısu, Ayazmaetc), Winter Tourism (Ilgaz Mountain), Sport Tourism (Valla canyon trekking, climbing, hunting etc), Natural Parks (Ilgaz, Bartın-Küre) (http://www.kastamonukulturturizm.gov.tr/belge/1-65976/turizm-aktiviteleri.html), (KUZKA, 2011:5).

c. *Adjacency to Safranbolu, Sinop Region*: Safranbolu and Sinop are developed regions in tourism. Many tourists can think to visit Kastamonu when they come to Sinop or Safranbolu. Persuading tourists to visit Kastamonu is easier when they come to close regions like Sinop or Safranbolu.

d. *Developed Turkish Cuisine InKastamonu*: Kastamonu is developed region with delicious Turkish Cuisine. Some examples of Kastamonu foods are EtliEkmek, Banduma, KuyuKebap, Tirit, ÇekmeHelva etc. (http://www.turkish-cuisine.org/pages.php?ParentID=4&FirstLevel=30&SecondLevel=38&LastLevel=39&). Delicious foods are encouraging factor for tourists.

e. *Tranquil conditions without terror or other conflicts*: Kastamonu has tranquil conditions without terror or other conflicts. Also Kastamonu is far away from Syria, Iraq and other countries that have conflicts and internal war.

Weaknesses of Kastamonu Tourism Sector

a. Lack of Qualified Personnell: Young Kastamonu people generally migrate to large cities like İstanbul, Ankara. Also Kastamonu University has just been settled in 2006. Kastamonu University School of Tourism and Hotel Managementhas received first students in 2011-2012 term. Also tourism is not developed in Kastamonu. Because of these reasons, Kastamonu has not enough qualified person in tourism sector. However, with the developing of University, it can solve this problem in future. KUZKA (2011:15)states that lack of qualified personnel is one of the problems of tourism sector.

b. Reluctance of Entreprenurs: Kastamonu entrepreneurs generally prefer to invest in Istanbul. Even they want to invest in Kastamonu, they are not thinking to invest tourism sector firstly. Intentions of entrepreneurs are important in making their own business and creating jobs (Top etal. 2012:935). In 2010, there are 15.278 enterprises in Kastamonu (Look at Additional Table 6).

c. Insufficient Capital Accumulation InKastamonu for being Entrepreneur: Capital is a critical factor for being a entrepreneur and making investment. It is observed that though there are many

rich businessmen, who were born in Kastamonu, most of them are not living in Kastamonu now. Also it seems that they are not planning to make investment to Kastamonu.

d. Imperfect advertisement: Though Kastamonu has many interesting historical places and natural beauties they are not known by tourists because of imperfect advertisement. If they are introduced by advertisements more tourists will come and visit Kastamonu. According to KUZKA (2011:15) the most important problem of Kastamonu Tourism is lack of advertisement. Negative publications in International and National media are threats for all Turkish tourism (DPT, 2006:15).

e. Lack of Firm Experience: Firm experience may be important factor in firm success in a market. Learning by doing hypothese, which is improved by Arrow, states that accumulation of experience makes downward shift in cost curves (Sheshinski, 1967:568). Tourism is not developed sector in Kastamonu and there are no experienced hotels and service firms in Kastamonu. Lack of firm experience has negative effects in service quantity.

Opportunities

a. Economic Development and Growth in Turkey: Turkey has economical stability and high growing GDP after 2002. GDP per capita was 3492$ in 2002, however it has increased to 10.444$ in 2011 (http://www.hazine.org.tr/tr/index.php/ekonomi/ueretim-ve-bueyueme). Tourism and cultural expenditures are increasing with the income of Households according to Engel's Law (Dilek and Çolakoğlu, 2011:1222). If consumers decide to increase their tourism expenditure and to see different regions (not classical regions like Antalya, Muğlaetc), this can be opportunity for Kastamonu Tourism sector.

b. Development of University: Although Kastamonu University settled in 2006, it witness high growing rate. In 2013, university has eight faculties, two institutes, four high schools and eleven vocational high schools (www.kastamonu.edu.tr). By the growing of university, tourism sector will find qualified persons they need, parents of students will discover beauties of Kastamonu etc. In shortly university is a chance for Kastamonu Tourism sector.

c. *Emigrants of Kastamonu Awareness*: Kastamonu is one of cities which have high number of emigrants in İstanbul and other large cities. For example; according to TUİK address based population registration system, in 2010-2011 term 6612 of total 15.482 people who emigrated from Kastamonu goes to İstanbul, while 1322 of them goes to Ankara. So, emigrants to these two cities are about %51 of total emigrants.These emigrants are aware of the beauties and touristic places of Kastamonu. Therefore, persuading them to visit Kastamonu is easier than others. High numbers of emigrants are opportunity for Kastamonu tourism if it is used effectively.

d. Touristic Trends of Turkish Citizens: Antalya, Muğla, Mersin are classical touristic places. However, Turkish citizens can look for something different than seaside tourism. Canyons, winter tourism and other facilities of Kastamonu can be interesting for tourists who look for different

excitement. According to DPT (2006:1) tourists start to prefer education, fun and environment rather than sea-sand-sun.

e. *KastamonuUniversity School of Tourism and Hotel Management and Cide Rıfat Ilgaz Vocational HighSchool*:Industries need qualified persons to develop. Kastamonu University School of Tourism Management and Cide Rıfat Ilgaz Vocational High School is a developing school that can educate high qualified persons for industry. DPT (2006:37) is aware of the importance of education in tourism.

Threats

a. *European Sovereign Debt Crisis (After 2008)*: This financial crisis has made difficult for some of European countries to finance their government debt without help of other countries or organizations. Because of this ongoing crisis, consumption expenditures of these countries' citizens decreased. If this crisis goes on the probability of visit of foreign tourists will decrease. Also DPT (2006:15) states that European Union supports touristic movements inside European area.

b. Attack of Rival Regions: Tourism is an important activity that provides profits without paying for environmental pollution. Therefore many regions interest with tourism facilities. There are many regions that have similar nature with Kastamonu, especially in North Sea region of Turkey. For example; Trabzon, Rize etc. are interested with plateau tourism.

c. *Conflicts In Adjacent Countries (Syria, Iraq, Georgia)*: Turkey has borders with countries that have internal wars or conflicts. Though Kastamonu is far away from these regions foreign tourists may have negative perceptions about Turkey. Because of these negative perceptions they may beware of visiting Turkey and also Kastamonu. Geopolitical location of Turkey can be source for threats of Turkish Tourism (DPT, 2006:15).

d. Transportation Problems: The only way to reach Kastamonu is highways. Tourists can use buses to reach Kastamonu. Airport is under construction now. It is planning to be open in 2013, however it has not opened yet. Tunnel of Ilgaz Mountain is also under construction now. Moreover railway and seaway is not used effectively to reach Kastamonu. If tourists decide to visit Kastamonu they may have problems about transportation. KUZKA (2011:15) states that transportation problems are important for Kastamonu Tourism. As we see, winter and snow conditions have provided problems for transportation.

e. Low Demand: Kastamonu is not a classical tourism region such as Antalya or Muğla. Hotels and touristic enterprises have difficulty in attracting tourists. Because of these low demand they are beware of opening new enterprises. However, tourism authorities should give priority to health, congress, plateau, culture, religion tourism (DPT, 2006:35).

The Socio-Economic Situation of Kastamonu Province and Probable Benefits of Development in Tourism Sector

Kastamonu Province generally places in the middle of 81 provinces according to socio-economic development. For instance; the study, which was done by DPT in 2003, shows that Kastamonu is the 51th province of Turkey in socio-economic development (Dinçer et al,2003:55). Baday Yıldız (et al 2010:702) reveals that Kastamonu covers 43rd place and the study of Ministry of Development[13] in 2011 shows that it is in 47th place according to socio-economic development. In Historical process, net migration level of Kastamonu province becomes negative because of it's placing in the middle class or below according to socio-economical development.

Table 2. Net Migration Level of Kastamonu Province

Term	1975-1980	1980-1985	1985-1990	1995-2000	2007-2008	2008-2009	2009-2010	2010-2011
Net Migration*	-10.717	-11.094	-26.777	-11.689	772	-1.523	-1.611	-459
*Net migration= in migration- out migration								

Source: TÜİK (Turkstat), Göç İstatistikleri (Migration Statistics), http://www.tuik.gov.tr/VeriBilgi.do?alt_id=38, (date: 16.04.2013).

As it is seen in Table 2, Kastamonu province out migrants are crowder than in migrants except 2007-2008 term, so net migration level become negative. For example; according to TUİK, in 2010-2011 term, though out migrants of Kastamonu province is about 15.482 people, in migrants are 15.023 and therefore net migration level is -459.

In the studies related with migration movements between countries or regions migration is generally thought to be results of economic factors(Gallaway and Vedder,1971;Banerjeeand Kanbur, 1981; Hatton, 1995; Kandemir, 2010). Kandemir (2010:166-172) states that the most important factor in the movements of migration between provinces and regions in Turkey is the number of enterprise that increases opportunity to find employment. Similar to this study according to TUİK, between 1995-2000,%20,05 of total migrants between provinces in Turkey moves because of opportunity to find new jobs addition to this %13,42 of them moves because of preferment (Kocaman, 2008:53-54). If we add these two numbers approximately %33,47 of migrants moves by the reason of employment factors (Kandemir, 2010:152-153).

[13]The State Planning Organization was reorganized as the Ministry of Development in June 2011.

One of the effects of tourism on regional development is revealed through the fact that the touristic expenses of the local and foreign tourists visiting the region increase the regional demand and that touristic investments made to meet this demand increase the incomes of the production factors in the tourism sector and the other sectors that feed the sector(Çeken, 2008:300).In this way, the increase in the number of businesses beginning with tourism sector spreads to the other sectors, which increases the regional added value and employment.

The most important indicator of this is,as seen in the Table 3,that the correlation coefficientbetweenthe rate of the total number of stays overnight of the citizens and foreigners at the accommodation facilities(hotels and pensions) with tourism operation licence and municipality licence in a city to the population of that city and the rate of the number of enterprises in a cityto the population of that cityis 0,52 in Turkey.

The positive correlation coefficient is indicative of a directed line relationship between two variables(Ural and Kılıç, 2006:247-248).This comes to mean that the number of stays overnight of tourists in the cities and the number of the enterprises in those cities affect each other positively.

Table 3 . Pearson Correlation Test

In the base of Provinces	Number of stay overnight / Population	Number of Enterprises / Population
Number of stay overnight / Population	1	0,523**
Number of Enterprises / Population	0,523**	1
N	81	81

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

- Analyses are conducted according to **Table 6** attached by using SPSS package programme.

The development of tourism in Kastamonu Province will increase the number of entreprises and also probability of employment. So, the loss of young population by migration can be prevented and the poverty level of Kastamonu can be decreased. Kandemir and Aktaş (2011) states that the increase in number of enterprises generally decreases poverty ratios of provinces in Turkey. Temiz (2008:84) reveals that there is significant relationship between unemployment and cronical poverty and unemployed people are groups which can be meet with poverty with the highest possibility.

According to them Çoşkun and Tireli (2008:159) the most important insurance against to poverty and social exclusion is having jobs. Also Keskin and Cansız (2010:23-24) said that because of the highly developing tourism sector, countries have improved their foreign currency incomes and decrease the poverty by providing new employment possibilities. Another indicator that supports this view is that according to TUİK statistics poverty of unemployed people is higher than the poverty of employed people. For example; as it can be seen in Table 4, in 2009 poverty in employed people are just %15,37 while this rate is realized as %19,51 in unemployed people in Turkey.

Table 4. **Poverty rates according to economic activity status of the household members, TURKEY**

Economic activity status	2008	2009
Total	17,11	18,08
Members aged 15 years and more	14,39	15,27
Employed members	14,82	15,37
Unemployed	17,78	19,51
Economically inactives	13,73	14,68
Members younger than 15 years old	24,43	25,77

(*) Figures were revised according to new population projections.

Source: Results of 2009 Poverty Study, TUİK (TURKSTAT), http://www.tuik.gov.tr/VeriBilgi.do?alt_id=23, (date: 17.04.2013).

In Table 5 it is seen that tourism effects socio-economic development of provinces positively. Table 5 presents the ten cities with the smallest number of stays overnight in Turkey and ten cities with the highest number as well as the order of their socio-economic developmental level. Considering the socio-economic developmental level of the cities where tourists stay overnight most of all, it has appeared that only the cities of Afyonkarahisar, Artvin and Nevşehir do not take place in the first 25 cities in terms of socio-economic developmental level. The fact that the other seven cities are within the first 25 cities in terms of socio-economic developmental level indicates that tourism is a sector that supports the economic development. Another maincase supportive of this view is that the cities where tourists stay overnight least of all, except Kırıkkale, are at the bottom of 81 cities in terms of socio-economic developmental level.

Table 5. The socio-economic developmental level of ten cities with the highest and smallest number of tourists' stays overnight (foreigner + native)

No	Cities with the highest number	The number of tourists' stays overnight / population (2010)*	Socio-economic developmental order of the cities (2011)**	No	Cities with the smallest number	The number of tourists' stays overnight / population (2010)*	Socio-economic developmental order of the cities (2011)**
1	**Antalya**	33,9512	5	1	**Kilis**	0,0913	63
2	**Muğla**	26,0544	8	2	**Kırıkkale**	0,0921	**41**
3	**Nevşehir**	9,7713	**36**	3	**Siirt**	0,0941	77
4	**Aydın**	5,3549	19	4	**Bayburt**	0,1099	64
5	**Balıkesir**	3,5009	22	5	**Şırnak**	0,1116	78
6	**Çanakkale**	2,3612	14	6	**Niğde**	0,1141	56
7	**Artvin**	2,2305	**44**	7	**Osmaniye**	0,1344	53
8	**Bolu**	2,0732	11	8	**Bingöl**	0,1406	72
9	**Denizli**	1,8277	10	9	**Ağrı**	0,1534	79
10	**Afyonkarahisar**	1,5930	**43**	10	**Hakkâri**	0,1686	80

Source:* Overnight stays in enterprises with tourism operation licence and municipality licence (foreigner +citizen) and population data are given from TUIK regional statistics(http://tuikapp.tuik.gov.tr/Bolgesel/sorguSayfa.do?target=tablo, (date: 18.06.2012).(look at additional Table 6).

**Socio-economic development levelsof provinces are taken from Kalkınma Bakanlığı (Ministry of Development)http://www.kalkinma.gov.tr/DocObjects/view/14197/BASIN_AÇIKLAMASI-sege_2011-v6.pdf,(date:16.04.2013)

As a result of this, present tourism potential have to be activated urgently to prevent poverty and emigration by both providing socio-economical development and increasing employment possibilities in less developed provinces such as Kastamonu in Turkey.

Results and Suggestions

Because of the global crisis lived in, it is obvious that possibility of transfering sources have been limited to decrease regional development differences. So, new development concept that aims to

activate own local sources without national transfers and subvansions (Keskin and Sungur, 2010: 278; OECD, 2009) become more important in today's conditions in the concept of countries.

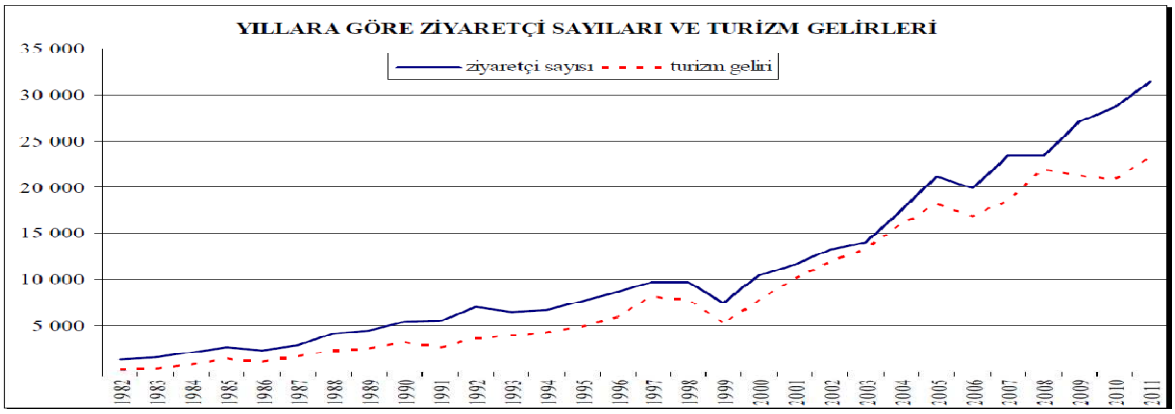
According to ministry of development data, Kastamonu places in 47th between 81 provinces and because of that reason for Kastamonu province that has negative migration levels in historical process using tourism potential effectively is more important. In this context, to improve and activate existing tourism potential, the things that should have been done are written as below;

Subvansions: Even though tourism investments require long years for their return, they are investments with high capital/yield rate. Therefore, the whole world is supported(DPT, 2007:9). Toker (2007)drew attention to the fact that the sector should be encouraged for tourism and to the importance of the public sector conducting the infrastructure investments required for tourism. In his study in which he analyzed the tourism sector incentives, he stated that there is a big parallel between the incentives (especially grants) in the sector and the investments in the sector and the incomes (Toker, 2007).Similarly, in a study by the General Directorate of Investments and Businesses in the Ministry of Culture and Tourism of the Republic of Turkey (2012), it was shown as in the figure 1 that the incentive policies brought into force with the Tourism Incentive Law numbered 2634 in 1982 have had a positive influence on the tourism sector.

Infrastructure, advertising and accommodation: One of the main problems of the tourism sector in Region TR82 (Kastamonu, Çankırı, Sinop), which includes Kastamonu, is inadequancy of advertising and marketing. On the other side low service quality and less number of accommodation establishments are other problems (KUZKA, 2011:15).Because of this reason T.C. Ministry of Culture and Tourism (2007:5) declares that it is needed to solve problems about infrastructure and environment by the help of private sector and local managers in regions that have tourism potentials and especially accommodation establishments that saved local architectural values should be supplied to tourism sector.

Investments and facilities, that will highlight Kastamonu's own alternative tourism areas (Eco-tourism, winter tourism, sport tourism, religion tourism, photo and jeep-safari tourism etc) should be generalized.In this perspectives, the advertisement of region should be done in both national and international tourism fairs and organizations,especiallymedia institutions should be used effectively in this advertisement activities (KUZKA, 2011:19).

Figure 1. The Path of TheNumber of Visitors and Tourism Incomes after 1982 (1982–2011)



Source: T.C. Kültür ve Turizm Bakanlığı Yatırım ve İşletmeler Genel Müdürlüğü (General Directorate of Investments and Businesses in the Ministry of Culture and Tourism of the Republic of Turkey) (2012:4).

Employing Qualified personnell in Tourism services: The activities, that improve their quality of emloyee's (communication, foreign language, public relations) and motivations, should be done to improve tourism sector (KUZKA, 2011:19).To achieve this goal, quality of labor with tourism education should be increased and certification system should be applied effectively(T.C. Kültür ve Turizm Bakanlığı, 2007:5). Collaboration with Kastamonu University should be done for education of personnell who are employed in tourism sector and the related courses should be opened.

Transportation: Land transportation is relatively hard in Kastamonu because of hard winter conditions and Ilgaz Mountain. So, it is needed that airport should be opened soon. With the finishing of Ilgaz Mountain tunnell, transportation problem will be mostly moderated.

As a result of this, with the taking of precautions above, number of tourists and their overnight stays will increase. This situation will have an positive impact on number of entreprises as it is seen in corelation analysis. The increase in number of enterprises will also increase employment possibility in the region and this will both prevent emigrations (Kandemir, 2010) and decrease poverty (Temiz, 2008:84; Kandemir and Aktaş, 2011; Coşkun and Tireli, 2008:159). By this means the barriers infront of development of Kastamonu Province can be removed.

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Additional Table 6: Overnight Stays (foreigners and citizens) and number of enterprises (2010)

Provinces	Number of stay overnight (2010)*	Number of Enterprises (2010)	Population (2010)	Number of stay overnight / Population(2010)	Number of Enterprises /Population(2010)
İstanbul	16.836.677	687.279	13.255.685	1,2701	0,0518
Tekirdağ	509.106	36.154	798.109	0,6379	0,0453
Edirne	345.393	19.196	390.428	0,8847	0,0492
Kırklareli	137.138	15.607	332.791	0,4121	0,0469
Balıkesir	4.034.213	53.521	1.152.323	3,5009	0,0464
Çanakkale	1.157.910	24.711	490.397	2,3612	0,0504
İzmir	4.830.593	187.972	3.948.848	1,2233	0,0476
Aydın	5.300.583	50.336	989.862	5,3549	0,0509
Denizli	1.703.078	46.372	931.823	1,8277	0,0498
Muğla	21.299.579	55.209	817.503	26,0544	0,0675
Manisa	539.320	56.294	1.379.484	0,3910	0,0408
Afyonkarahisar	1.111.240	25.884	697.559	1,5930	0,0371
Kütahya	424.786	20.905	590.496	0,7194	0,0354
Uşak	134.537	15.526	338.019	0,3980	0,0459
Bursa	1.766.486	107.932	2.605.495	0,6780	0,0414
Eskişehir	332.635	27.607	764.584	0,4351	0,0361
Bilecik	65.134	7.115	225.381	0,2890	0,0316
Kocaeli	502.876	59.589	1.560.138	0,3223	0,0382
Sakarya	260.538	36.996	872.872	0,2985	0,0424
Düzce	209.216	13.763	338.188	0,6186	0,0407
Bolu	562.257	10.563	271.208	2,0732	0,0389
Yalova	249.306	10.480	203.741	1,2236	0,0514
Ankara	2.794.308	207.517	4.771.716	0,5856	0,0435
Konya	906.934	77.970	2.013.845	0,4503	0,0387
Karaman	55.282	8.670	232.633	0,2376	0,0373
Antalya	67.166.826	116.516	1.978.333	33,9512	0,0589
Isparta	377.797	16.276	448.298	0,8427	0,0363
Burdur	153.174	13.122	258.868	0,5917	0,0507
Adana	657.539	69.945	2.085.225	0,3153	0,0335
Mersin	1.746.442	66.122	1.647.899	1,0598	0,0401

Hatay	643.525	50.020	1.480.571	0,4346	0,0338
Kahramanmaraş	550.794	31.705	1.044.816	0,5272	0,0303
Osmaniye	64.424	15.373	479.221	0,1344	0,0321
Kırıkkale	25.473	9.091	276.647	0,0921	0,0329
Aksaray	149.962	13.162	377.505	0,3972	0,0349
Niğde	38.554	11.738	337.931	0,1141	0,0347
Nevşehir	2.758.789	12.937	282.337	9,7713	0,0458
Kırşehir	75.643	7.374	221.876	0,3409	0,0332
Kayseri	360.723	41.353	1.234.651	0,2922	0,0335
Sivas	260.823	19.245	642.224	0,4061	0,0300
Yozgat	97.128	15.766	476.096	0,2040	0,0331
Zonguldak	180.245	23.389	619.703	0,2909	0,0377
Karabük	226.980	9.230	227.610	0,9972	0,0406
Bartın	207.752	7.266	187.758	1,1065	0,0387
Kastamonu	244.297	15.278	361.222	0,6763	0,0423
Çankırı	57.267	4.916	179.067	0,3198	0,0275
Sinop	176.786	7.915	202.740	0,8720	0,0390
Samsun	311.106	44.511	1.252.693	0,2483	0,0355
Tokat	169.239	19.514	617.802	0,2739	0,0316
Çorum	310.235	19.182	535.405	0,5794	0,0358
Amasya	141.253	11.861	334.786	0,4219	0,0354
Trabzon	831.495	30.873	763.714	1,0888	0,0404
Ordu	201.778	25.917	719.183	0,2806	0,0360
Giresun	113.014	17.262	419.256	0,2696	0,0412
Rize	141.284	14.546	319.637	0,4420	0,0455
Artvin	367.503	7.647	164.759	2,2305	0,0464
Gümüşhane	23.740	4.307	129.618	0,1832	0,0332
Erzurum	599.795	21.515	769.085	0,7799	0,0280
Erzincan	146.299	7.324	224.949	0,6504	0,0326
Bayburt	8.177	2.461	74.412	0,1099	0,0331
Ağrı	83.145	10.068	542.022	0,1534	0,0186
Kars	173.675	8.192	301.766	0,5755	0,0271
Iğdır	68.650	6.626	184.418	0,3723	0,0359
Ardahan	93.390	2.946	105.454	0,8856	0,0279
Malatya	247.544	24.772	740.643	0,3342	0,0334
Elazığ	148.697	18.217	552.646	0,2691	0,0330

Bingöl	35.866	5.433	255.170	0,1406	0,0213
Tunceli	23.489	2.636	76.699	0,3062	0,0344
Van	492.849	26.576	1.035.418	0,4760	0,0257
Muş	110.297	7.135	406.886	0,2711	0,0175
Bitlis	113.408	7.132	328.767	0,3449	0,0217
Hakkâri	42.357	4.923	251.302	0,1686	0,0196
Gaziantep	531.518	58.955	1.700.763	0,3125	0,0347
Adıyaman	109.303	16.799	590.935	0,1850	0,0284
Kilis	11.247	4.643	123.135	0,0913	0,0377
Şanlıurfa	297.613	45.652	1.663.371	0,1789	0,0274
Diyarbakır	573.174	34.492	1.528.958	0,3749	0,0226
Mardin	198.971	19.303	744.606	0,2672	0,0259
Batman	100.480	10.707	510.200	0,1969	0,0210
Şırnak	47.981	14.856	430.109	0,1116	0,0345
Siirt	28.302	5.226	300.695	0,0941	0,0174

*Overnight Stays in enterprises with tourism operation licence and municipality licence (foreigners and citizens)

Source: The table is arranged by using TÜİK (Turkstat) Bölgesel İstatistikleri (Regional Statistics)
(http://tuikapp.tuik.gov.tr/Bolgesel/sorguSayfa.do?target=tablo, Date:18.06.2012).

Rural Entrepreneurship in Bosnia and Herzegovina, challenges and opportunities[14]

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Abstract

Rural development is identified as one of the key areas of intervention by modern economic research community. The main drivers of rural development should be small sized companies run by rural entrepreneurs. The paper presents analysis of the factors determining success of rural entrepreneurship in BiH, using probit model with quantitative data collected in 2012. The direction and magnitude of different factors were further analyzed through factor analysis and qualitative data analysis. Findings from this research, reveal that inovative clusters are a form of modern rural entrepreneurship success,in which limitating factors as education, credits, type of the business and competition are managed effectivelly.

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Keywords: rural entrepreneurship, business success, semi-structured interviews, factor analysis, probit model, Bosnia-Herzegovina

Introduction

Bosnia and Herzegovina (BiH) as a developing and transition country faces severe obstacles in economic development, especially in rural areas, where sixty percent of the population is located (MoFTER 2008), but employment opportunities are sporadic and a need for skillful labor is present. Without proper and sustainable rural entrepreneurship development, there are further difficulties for strengthening economic development. This paper investigated the factors that hamper larger involvement of population in rural businesses in the framework of the model of determinants of success of rural businesses. The focus is on micr and small businesses, run mainly by successful rural entrepreneurs.

Entrerpreneurship has an important overall role in the economic and rural development, building stronger than ever relations in rural areas. Entrepreneurship, as a dynamic force for growth, employment creation, and life quality improvement (Petrin, 1994), has been considered a key element in rural development and sustainable economic development. It has occupied the minds of officials who facing growing challenges in local and global markets, seek for sustainable rural development policy. The more entrepreneurial region is, the more it outperforms neighbouring economic regions. Acknowledging the central role entrepreneurship has in economic rural development and properly developing conducive entrepreneurship environment (Rehman, 2005), leads to the rural entrepreneurship network that creates a positive business climate and behaviour, decreasing significantly important rural poverty and generates employment, particularly for youth. For the successful and productive environment, it is highly important to understand the factors that influence rural entrepreneurship, that starts with state productive interventions, drafting clear and sustainable rural development national strategy (Petrin, 1994), diversified products, entrepreneurship promotion and marketing, knowledge transfer and sharing, supply chains and a net of cooperatives and large companies (Rongsen, 1998).

Although rural areas in Bosnia and Herzegovina are characterized by small arable parcels per capita, of less than 2 ha of arable land per farm (Volk, 2008), consisting of approximatelly 250.000 firms, presenting twenty five per cent of the businesses (Volk, 2008), agriculture is very important and persistent way of rural entrepreneurship. Still, large defragmentation and disintegration of small producers, has kept producers mostly related to subsistence agriculture, leading to diminished productivity and inefficiency. This highlights the need to identify the most prominent obstacles to

rural entrepreneurship and draft a precise, comprehensive and successful rural entrepreneurship strategy to create sustainable rural development, to generate employment and spur innovation.

Paper is further organized in three main sections. The next section present review of the literature on rural entrereneurship and factors determining their success. Third section describes the methodology use in the analysis of factors influencing success of rural businesses in BiH, and the fourth section presents results of the analysis. Finally, section five concludes and provides a list of policy recommendations for increasing entrepreneurial activities in rural areas for the purpose for improving rural development of BiH.

Literature review

Growing empirical evidence in the literature on rural entrepreneurship (Volk, 2008), support the thesis that there is a positive correlation between governance, rural entrepreneurship and rural development, where goal oriented policy, transparent support and efficient law framework play a prominent role.

The predominant form of rural businesses is micro and small business, where they account for 90 percent of all rural establishments (Buss and Yancer 1999) and nearly two-thirds of all rural jobs, making them a vital part of the rural economy (McDaniel 2001). Almost 75 percent of rural small businesses have fewer than 20 employees, accounting for a quarter of rural jobs, but only a fifth of rural payrolls (McDaniel 2001). Predominant industry of the small rural businesses is primarily in the non-producer service industries, including accommodations, social services, retail, amusement and recreation, which are generally lower paying industries, contributing to low levels of employment and generally low-productive family-run businesses. On the other hand, small businesses in urban areas are focused on higher paying industries such as producer services, including management, finance, and technology (McDaniel 2001).

Literature identified the main factors affecting success of rural entrepreneurship. These factors can be broadly divided into “internal” factors (such as characteristics of entrepreneurs, characteristics of the business,) and “external” factors (such as population trends, availability of natural reousrces, government support, characteristics of the labour and good market, quality of the supply chain, and availability of finances). Arguments explaining importance of each of these factors are explained in the remainder of the text.
Risk taker, innovator, motivated, opportunity taker, inspired, owner, are all features of the entrepreneur (Martin and Osberg, 2007). Successful entrepreneurs are performing and combine

those determinants on the daily basis. Entrepreneurs have a special set of cognitive capacities Sciebold (2011) and attitude (De Mel, Mckenzie and Woodruff, 2010), that makes them unique, as those have direct impact on the success of the business. Cognitive abilities are influenced by the level of education, as more educated are proactive in all areas of the business and in technology development. Female owners are found to be in minority and face various obstacles due to gender issue, specially in complying with financial requirements (Papadaki and Chami 2002) by financial institutions, although it has no implications to firm survival rate (Cooper et al, 1994). Age of the entrepreneur is shown to be positively related to some extend and as owner ages, it becomes less dynamic affecting the business performance (Selaman et al 2011). Norms, values in behavioral contest are shaped by culture, inevitably have its impact on the entrepreneurship performance (Schiebold, 2011).

Gianneti and Simonov (2008), assert that substantial entrepreneurial activity is to be influenced by positive entrepreneurial climate in the close regions, giving a special place to social interactions, as one of the main entrepreneurial drivers, that also enhance faster learning through social effect. The usage of many proxies makes this finding challenging in general application and opens a door to new entrepreneurial climate insights. Personal traits, attitude and strong motivation of entrepreneurs are sufficient (Che Rose, Kumar and Lim 2006), to overcome impediments to start-up and growth of the entrepreneurship. Schields (2005), acknowledges the importance of culture and social factors and family relations, placing higher influence on successful rural entreprenurship management, linking individuals to rural community development.

Although the lack of educated labor force tends to be one of the most influential factors in developed countries such as the United Kingdom, Smallbone et al, (2006) and Freshwater (2000), points out on historical data, that show how family background used to be compensated for the lack of knowledge and that have all been changed due to higher market competition. This has become important in the transitional countries, due to market and sectoral reorientation. Building entrepreneurial behavior and skills starts at the early age and is nurtured through further education. In Nigeria, Ajibefun and Daramola (2003) findings support Okurut's research. He acknowledges that the education level of the owner has highly influenced efficiency of the business and affects the growth of the business (Che Rose, Kumar and Lim (2006). This puts education on the level of high priority variables for technical and organizational effects. Nevertheless, in combination with the age of the owner, education and age have a parabolic shape as two variables, meaning that efficiency of the business performance first rises then declines as owner ages. Although young owners lack experience, they should be given trainings and encouragement to become entrepreneurs. Okurut (2008) stresses out the positive impact of education and business knowledge on the microbusiness performance, while a combination of rural entrepreneurship and female

ownership decreases business success. There seems to be a positive link between number of start-up firms and educated owners (Acs and Armington 2005), not referring solely to secondary degree education.

Family business presents a healthy ground for young entrepreneurs, who are in a position to learn from their family on rural entrepreneurship from the very beginning, to learn about processes and resources (Walzer 2009). Although in advanced position, empirical evidence shows that businesses started from owners' own interest (not inherited) are more successful in the long term (Walzer 2009). High growing entrepreneurships are negatively related to family businesses (Bjuggren et al 2010).

External opportunities and threats play important role in rural entrepreneur's activity, where entrepreneurs creativity and motivation comes into play, if to survive. Characterized by constant depopulation, rural areas and rural entrepreneurs face a challenge more than ever before, in striving to attract skilled and educated labor, on one hand, and maintain supply of products that should correspond to demand in the market. The logical consequence to this is generally lower firm entry rate in rural areas than in urban areas (Plummer and Headd, 2008, Yu, et al, 2008).

It is important to note, that successful rural development is highly influenced by institutional support (Bilali, Vituarri, Berjan, nd). This does not exclude the possibility of regional development itself, but slows the pace of development in a fast competitive global area and drives down any further motivation and success. Institutional support consists of formal and informal rules. Formal (codes of conduct) are written in the legal framework, directly applying (Schiebold, 2011) to the business performance, while informal are shaped in norms, cultural values (Shirley 2008).

Infrastructure plays prominent role in its impact on rural entrepreneurship success, such as road, broadband access and access to water (Walzer 2009). The more developed infrastructure, the more successful rural entrepreneurs we have (Okurut 2008). Access to utilities, such as electricity, communication, markets and road, contributed to the growth of the microbusinesses in rural Kenya (Kirubi 2006). Infrastructure refers to physical and non-physical. Physical infrastructure refers to roads, energy. Nonphysical consists of market structure. Infrastructure plays an important link of rural entrepreneurs in the urban market. Neglected by institutions in the rural development planning and investment, due to its substantial cost issue, infrastructure is one of the main impediments in transitional countries. Due to the characteristic of rural areas in the sense of their remoteness, additional challenges to rural development are transportation costs (Smallbone, 2006) and infrastructure, affecting entrepreneurship base (OECD, 2006).

One of the limiting factors is a small local market that influences differently rural entrepreneurship sectors (North and Smallbone, 1996), pushing rural entrepreneurs to export markets from its very first establishment (Smallbone et al, 1993, Dabson 2011). This clearly provides insight into the importance of external and institutional support of rural firms. The evidence from the different research sources, indicate the ability of rural firms to overcome the influence of rurality and to adapt to exporting market conditions, more successfully than their urban counterparts (Gale 1998). The pace of this adoption is facilitated by the level of the country's development and opens a door to export markets, institutional and policy support (Wyer and Smallbone, 1999) in developing and post transitional countries.

Short supply chain as a constraining factor, has been recognized by France, in the new strategy for rural entrepreneurship development and is highly welcomed by Member States and drafted in New EU Rural Development Policy 2011 (NRN 2011). Rural businesses are often involved in the chain with the middlemen (Alsos et al 2011), who by charging its margin, raises the price of the product and in one or another way affects the pace of sales. Shortening the chain, by introducing direct sales to customers, through farm shops, road stands, online sales, fair sales (Alsos et al 2011) and other forms, reduces costs and allows producers to interactively engage in sales. Yet, Verghaegen and Van Hylenbroeck (2001) acknowledge another angle to this issue, stressing out that direct sales to producers, require marketing and sales skills as a prerequisite and may take valuable time. As this might be true, for remote rural enterprises, we believe that short supply chain has possibility to contribute in general through various ways.
To some extent, the external factors are more interlinked with lacking and skillful labor force (Petrin 1994), whose decreasing motivation to rural employment is compensated with a growing propensity to urban market opportunities. This leads to faster aging of the rural population that influences the possibility of dynamic rural enterprise growth. Even Dabson (2001), points out on the significance of population in the rural area, that creates demand for rural products, without which rural products can not decrease overhead costs, due to large production.

Beneth and Smith (2002), emphasize how the remoteness of rural areas contributes to decreasing tendency of access to trainings and knowledge transfer, associated with larger costs of services, inadequate training support, obsolete knowledge. The more distant enterprises have a transportation cost as a significant part of the price calculation and it directly reduces its margins and profit (Walzer 2009). Geographic location (Bosworth, 2011) is unprecedently defining the type of products harvested or services provided in the rural area of one country. The comparative advantage for the purpose of efficient production is important, but the geography provides no crucial obstacle to rural firms.

Financing is ever growing obstacle, very sensitive in the aspect of rural entrepreneurship in the context of credit collateral and credit history. It is extended to difficulties in loan procedures and documentation (Nurbani et al, 2010). Confessing the fact that start-up in general have financial issues, as is supported by the research of Nurbaini et al (2010), even providing the access to various financial schemes does not guarantee success.
Recent studies on the determinants of micro-enterprise success, by Schiebold (2011), includes following variables: features of entrepreneurs, infrastructure, institutional framework, culture, social capital, finance issues, terms of trade, informality. The set is used to develop a comprehensive model of a rural entrepreneurship econometric model.

BiH agriculture is still behind regional countries Croatia, Serbia and Macedonia, on the competitiveness scale (Zekić et al, 2009), due to low productivity level, crop yields, inefficient and obsolete production techniques and broken links between production and supply chains. Volk (2008) asserts that agricultural enterprises in Bosnia and Herzegovina, face serious obstacles to their development and production, where the most cited are related to obsolete technological processes, subsistence farming, poor irrigation techniques, deficient capitalization level, marginal production innovation, dependence on the inputs and natural production. BiH agricultural demand dominates the domestic agro-supply, despite Bosnian natural and climate advantages and leads to large agro-import.

Methodology

Model

Extending the model developed by Brian Headd (2000) for variable business characteristics of rural entrepreneurship, and combining it with the recent research findings as presented in the literature review, we developed the following model:

$$\Pr(Y = 1\ I\ X_i) = \beta_0 + \beta_1 F_{procedure} + \beta_2 F_{support} + \beta_3 F_{water} + \beta_4 F_{connection} + \beta_5 Fsmall_{competition} + \beta_6 Flarge_{comeptition} + \beta_7 F_{int} + \beta_8 F_{credit} + \beta_9 F_{education} + \beta_{10} F_{state} + \beta_{11} location_{rural} + \beta_{12} Djl_{dummy} + \beta_{13} No_{of_{sources}} + \beta_{14} Contract + \beta_{15} Export + \beta_{16} No_{customer} + \beta_{17}\ Cooperative + u_i$$

Model has dependent variable expressed as a dummy variable, indicating whether a company recorded increase in number of employees or not. The main independent variables are factors determining rural business success, including the list of obstacles they face, where the magnitude of the factors would be measured and its impact on the success of a rural business. Logistic and probit models (Watson and Stock, 2007), are used.

Due to the binary dependent variable, we will test for logistic and probit model. The model is estimated using maximum likelihood estimators.

Data and descriptive statistics

For the purpose of this research, a survey of rural entrepreneurs was conducted in both countries. The sampling frame used for sample selection consists of various sources, of over 1.300 entities, and there exists no single database of rural entrepreneurhip in Bosnia and Herzegovina. From the database we have selected and mapped 300 rural businesses for our sample (response rate was 70 percent, we have end-up with 210 respondents/surveys). The constraints we have placed on the sample, are originality and number of employees of up to 50 in order to avoid big businesses, as those are linked to large corporations located in urban areas.
The sampling selection is done in two stages. First stage was geographical clustering of agricultural activities. We selected 3 main clusters, one cluster in the northern part, one in the central part (close to the capital), and one in the southern part of the country. This method should help us collect more information about the structure of the businesses in the cluster (since all databases are not necessarily comprehensive) that should be used in the second stage of sampling. Second stage was stratification of the sampling frames in each cluster was made by the type of business, and for that we have considered how the rural businesses are distributed by business type according to statistical reports, databases available, as well as other sources. A random selection of the appropriate number of businesses is done from each stratum.

From the 300 selected rural businesses, we have reached 210 of them, with the 70% respondents rate. Out of 210 enterprises, 39.52% are rurally located, 36.19% are semi-urban and 25% are urban, which presents limiting factor in our analysis. Nineteen percent of them are located in the North Bosnia, 24% in the South and fifty percent in the central Bosnia (for more details, please see Table 4 and Appendix 4B), 73.3% are involved in production, 27% in the service sector. Select by the type of activity, there are 20% of businesses in the fruit sector, 21.9% in the vegetable sector, 2.3% in meat and dairy sector, 6.1% in honey sector, 6.1% in retail, 4.2% in the fisheries sector, 4.2% in herbal sector, 7.6% in pastry sector and 9.5% in rural tourism (around 10% are all other accompanied activities). Entrepreneurs are mostly men (in 86.95% of cases), who are 47.8 years old on average, have a secondary education level (in 57.76% of cases), with 19 years of total experience and 12 years of experience in the sector of their business.
Descriptive analysis of data for BiH has shown the following. Businesses are mostly established (82,43% cases) from the owner's interest and only a few are inherited (11.2%) from the family, and are using the owner's asset (in 87.14% of cases). Successful rural businesses have written contracts (60%) with one or two crucial customers (68%). Rural businesses are mainly established by one

owner, using owner's savings and in a few cases, by using a combination of bank credit and owner savings. It employs 9 employees currently, have a 10% in growth employment, and a 4.5% growth in sales annually, on average, with a large standard deviation. It has written contracts (in 59.52% of cases) and sells to 2 different groups of customers.

The rate of the rural business progress can be seen in a positive change in the number of employees. Rural businesses in BiH on average employ one worker for every two years of a business existence. Ninety two percent of businesses are growing but the rate of its progress is very slow, particularly including average age of the business.

Rural businesses are 7 km away from the closest bank or microcredit affiliates and 5 km away from the road. Supply of water, electricity, internet and access to the road are supplied in the 97% of cases on average, with no impediments.

Rural businesses mostly have signed contracts and we have a situation where a group of business who signed no contract, in 48.57% of cases had no success, and businesses that signed a contract, by 22.11% faced the same situation. What makes those two groups distinct, is an uneven distribution of success. Micro businesses are burdened with the costs of transportation (51.41%).

Sixty eight percent of rural businesses who said their business faces complicated administrative procedures are micro businesses (employing 1 up to 10 employees), who are successful, employing 2 to 5 additional workers. Out of those, 43% are those faced with this obstacle the most and have zero employment growth, meaning zero success. Real interest rate as an obstacle, has an impact on micro businesses („the slow growers“) in 62.4%, affecting businesses that employ 1 to 5 employees the most.

What is very interesting is the nature of relations among owner's total experience, intention to expand the business and a written business plan. Fifty five percent of owners do not have a written business plan. Of those who do have, 15th and 20th year of the business is crucial in planning. Owners express their intention and motivation to expand the business, but plan their activities every 10 years on average. Education of the owner does not particularly affect his/her motivation to write a business plan. Owner of the successful business in 82.24% of cases had the intention to expand the business, and 72.2% of them had a written business plan. Only those established by the pure interest of the owner (77.14%) using owners' savings as a starting capital (63.7%) is the most successful (77.14%).

Results

We have measured the effect of obstacles as a factor: administrative, infrastructure, market and finance, on the success of rural business (measured by the growth rate of employment, dummy variable), controlling for the entrepreneurs and business variables. We have created five factors, Factor administration, Factor infrastructure, Factor market, Factor finance, Factor success, using confirmatory factor analysis and orthogonal varimax rotation (paying attention on eigenvalues close to or higher than one and factor loadings over 0.70).

Variables c_1 (complicated procedures to obtain state transfer as support) and c_2 (absence of state assistance) describe F_{admin} By 92.03% each, which is very high loading. Factor F_{infr} is described by c_8 (absence of water supply) and c_9 (absence of phone connection, internet) by 87.42% (each variable). The same logic applies to other two factors. Obstacles grouped in factor had no statistical significance of the model. Their impact is larger is observed individually.

We have tested for several logistic models and relevant results are presented in the table below

Table 4: Results of various models

RESULTS					
Dependent variable: Employment growth (dummy variable)					
REGRESSOR	LOGIT(1)	LOGIT (2)	LOGIT (3)	LOGIT (4)	PROBIT (1)
cl_1_ima					
civ_16a_ima	1.073261				0.6765625
cv_21_ima	1.091434		4.011162		0.6403492
d1_ima	0.909987				0.6033569
djl_dummy	-1.147163		0.1212797	0.1351926	-0.6632062
contract		3.289923			
cooperatives		0.2653241			
Fadmin		1.482602			
Finfr					
Fmark		1.889266		1.548812	
Ffin				1.704107	
Fsuccess					
location_r*djl_dummy			7.804843	9.648644	
contract*export					
no_of_custostomer*export			1.332888		
location_r			0.1294131	0.0980284	
established	-1.31886			0.1976446	-0.7454477
constant	0.6392238				0.3019141
SUMMARY STATISTICS					
number of observations	159	154	166	159	159
chi2 (no of variables)	50.60(5)	40.17 (4)	43.34(5)	50.39(6)	50.91(5)
p	0.0000	0.0000	0.0000	0.0000	0.0000
pseudo R2	0.2401	0.1969	0.1958	0.2370	0.2415
GOODNESS OF FIT TEST	0.0115	0.1128	0.3596	0.0000	0.0166
	chi2(21)=38.41	chi2(24)=32.60	chi2(18)=19.54	chi2(46)=111.41	chi2(21)=37.05
CORRECTLY CLASSIFIED	76.10%	71.43%	74.70%	75.47%	76.10%

In the first model, we wanted to control for the effect of obstacles: competition, credit, on the success, holding variable education, production and established business constant. All variables are statistically significant.

In the model LOGIT (1), for each additional unit increase in competition of small rural enterprises, we expect a 1.073261 increase in log-odds ratio of employment growth, i.e. success of rural enterprises. For each unit increase in difficulties to fulfill credit procedures, we expect a 1.091434 increase in log-odds ration of employment growth. Being a productive enterprise reduces log odds of business success by 1.147163 and being established reduces log-odds ratio of success by 1.31886. The chi2 of 50.60 is greater than 11.07 (critical value) and shows that this model is better than model with no variables. Sample size of 159>100 is statistically significant and good representative

of the population. Variations in the independent variables explain 24 percent of all variations in the employment growth. The model correctly represents 76.10%>50% and fits the data (chi2=38. 1>32.67). In the model with factor analysis, model (4), we wanted to see how the dependent variable behaves in combination with independent variables, grouped in factors. In addition we wanted to see if there is any difference between businesses who are in production and located in rural areas. And the model showed this to be statistically significant variable with high log-odds ratio. In this model, there is significant impact of two factors to the success of rural businesses and those are: factor market and factor finance. Factor market consists of variables small and large competition, and factor finance of variable high interest rate and complicated procedures to obtain credit. For every unit increase in market obstacle or finance obstacle, we expect a 1.548812 increase in log-odds ratio, or 1.704107 respectively.

The probit model best describes the data, if we look for goodness of fit and obtained results in terms of expected signs and size of the estimated coefficient. The probability that the business will make success depends on small competition, credit procedures, education of the owner, purpose of its establishment and type of the business product or service). Since production sector grows relatively slowly compared to production, variable djl_dummy has negative sign. Rural areas are more prone to production than to service. Small competition is good as it rises the market battle among businesses to survive making them active).

Conclusions

The results of the rural entrepreneurship survey reveals that the main factors affecting success of rural enterprises in Bosnia and Herzegovina and Albania are service or production, finance, education and competition. The model has shown almost each factor to have a similar level of impact on the rural success, which means we need to work on those factors simultaneously, without prioritizing one over another. We see that competition plays positive role in the rural business success, meaning we need to work on creating positive and conducive rural entrepreneurship environment. It is a process and involves more actors in such activities.

Rural business owners face knowledge constraint. Here we talk about specific, industry knowledge, process knowledge and business knowledge. The sporadic plans they make do not do much when it comes to the success and development. Knowledge here also plays a role. Knowing rural areas are faced with depopulation, it means knowledge is very important and at the critical level.

Beside this, businesses have a need for a source of finance, on a regular basis, especially when it comes to buying and implementing new machines, adapting old ones, getting to know-how.

Usually, rural businesses are established using owner's saving and it is limited source of financing. These businesses usually are micro businesses, which does not exclude the possibility of other companies to grow.

We have seen that competition plays positive role in the rural business success, meaning we need to work on creating positive and conducive rural entrepreneurship environment. It is a process and involves more actors in the play. The data show rural BiH tend to have more rural businesses in the sector of production, which is slow growing.

Rural business owners face knowledge constraint. We talk about specific, industry knowledge, process knowledge and business knowledge. The sporadic plans they make do not do much when it comes to the success and development. Knowledge also plays a role. Knowing rural areas are faced with depopulation, it means knowledge is very important and at the critical level. Beside this, businesses have a need for financing, on a regular basis, especially when it comes to buying and implementing new machines, adapting old ones, getting to know-how. Usually, rural businesses in BiH are established using owner's saving and it is limited source of financing. These businesses usually are micro businesses, which does not exclude the possibility of other companies to grow. Businesses are disintegrated and have limited benefits acting on their own. This takes valuable energy and time out of them. Beside, new trends in agriculture and rural businesses are diversification of rural activity and emergence of agro-tourism.

Combination of rural knowledge and industry cluster appear to be also a way of organizing rural areas in Europe (e.g. Northern Italy). The rural knowledge cluster has many benefits and above all, includes many organizations which are not all business types, such as a university that is acting as a source of knowledge and social capital, NGOs who are conducting research and act in promoting the cluster. Beside, gathering small firms under the umbrella of a cluster , stands as a stable structure in attracting investment and various sources of financing. Regular training institutions can play a role in the educational part, but usually they serve as a short time purpose or trainer's background and are of no use to trainees. Knowledge clusters instead, gathers firms that are either linked by the same or similar technology or are part of the value chain. The knowledge is shared among businesses. The students from universities have real case practice and are contributing to clusters particular needs. This cluster than can do marketing of the product, positioning, promotion, finding new buyers, all the functions small producers do not have time to do or do not know how to. In this framework it is easier to approach the market for finance and investments. Building rural entrepreneurship takes planning, vision and time, and it can be done.

Application of the clusters in small open economy as Bosnia and Herzegovina is important to have institutional framework and a joint link of universities, associations, institutions, to create conducive rural entrepreneurship. The business examples found in our analysis identify institutional factor to impact their business success beside the factors determined in analysis. Policy makers need to take further step in creating strategies for rural development and clustering, as those have been successful methods for rural entrepreneurship development abroad and domestically.

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Appendices

Appendix 1. Description of the variables

VARIABLES	CODE/ SIGN	SURVEY	UNITS	EXPLANATION
DEPENDENT VARIABLE				
NUMBER OF EMPLOYEES (% change)	Y	B3	Dummy variable =1 growing, =0 negative and zero growth	A rise in percentage change in the number of employees represents a rise in business scale, meaning business is developing and growing, otherwise businesses is stagnating or deteriorates
INDEPENDENT VARIABLES				
BUSINESS CHARACTERISTICS				
TYPE OF THE BUSINESS	X_{12}(-)	A3	Dummy variable, 1=production, 0=service	We introduced this variable to see the difference in impact of production and service as a two broad sectors to business success. Production demands larger financial sources than service and grows slowly.
CONTRACT	X_{14}(+)	B16	Dummy variable, 1=has contract, 0=has not	Businesses that have written contracts have more stability in their business, are able to plan activities and are in a position to expand faster
NUMBER OF SOURCES	X_{13}(+)	B11	Dummy variable, 1= savings, 0=other	We wanted to control for the effect of establishing the business using owner's savings, relative to establishing using borrowed sources. Borrowings tend to burden the business, due to the interest or a time frame of its repayment

NUMBER OF CUSTOMERS	X_{16}(+)	B17	Continuous variable	The more customers' business has, the better it performs, it develops
EXPORT	X_{16}(+)	B17	Dummy variable, 1=yes, 0=No	We have introduced export as an additional variable to see the effect of export on success, to see the difference of business that export compared to business that do not export, to their success, and also to see what type of rural businesses we have, subsistence or opportunity based, those selling to processors are business oriented and are part of the supply chain and has a solid ground for business growth and success. Used in the study of Smalbone et al, (1993, 2003), in the longitudinal study of the 621 rural and urban firms (Gale, n.d.)
LOCATION RURAL	X_{11}(-)	A1	Dummy variable, 1=rural, 0=urban, semiurban	We wanted to control for the effect of rurality on business success. Rural enterprises located in remote rural areas are small, have low levels of productivity and sales and are less developed, contain less product diversification (supported by Rijkers and Leonng 2009)
MEMBER OF COOPERATIVE/ASSOCIATION	X_{17}(+)	B19	Dummy variable, 1=member 0=non member	We introduce this variable to control for the network effect, since rural businesses, facing various difficulties, are able to overcome significant part of the impediment if being part of cooperative or cluster, bringing prospect, growth and innovation in its performance (Matsujama 1991,). Thinner markets reduce entrepreneurial climate and incentives (Collier and Venables 2008)

OBSTACLES				
ADMINISTRATIVE				
Administration procedures	X_1(-)	C1	Dummy variable 1= is an obstacle , 0= is not	Successful rural development is highly influenced by institutional support (Bilali, Vituarri, Berjan, nd)
State Support	X_2(-)	C2	Dummy variable 1= is an obstacle , 0= is not	Successful rural development is highly influenced by institutional support (Bilali, Vituarri, Berjan, nd)
INFRASTRUCTURE				
Water Supply	X_4(-)	C8	Dummy variable 1= is an obstacle, 0= is not	We introduced this obstacle to control for access to utilities on business performance
Phone and internet access	X_3(-)	C9	Dummy variable 1= is an obstacle, 0= is not	We introduced this obstacle to control for access to utilities on business performance
MARKET				
Large competitors	X_6(-)	C16b	Dummy variable 1= is an obstacle, 0= is not	Large competition as an obstacle factor, affects small and micro businesses, if they are buying out from small businesses, thus it is not seen as an obstacle, if not (which is usually the case in BiH) than it presents an obstacle to growth.
Small competitors	X_5(+)	C16a	Dummy variable 1= is an obstacle, 0= is	Small competition, meaning competition from businesses alike in size and industry, is good and makes other businesses active and

			not	developing.
FINANCE				
High interest rate	X_7(-)	C20	Dummy variable 1= is an obstacle, 0= is not	Financial opportunities and interest rates as the price the rural business pays, is seen important impediment to firm performance (Nugent, 1996, Rijkers and Leonng 2009) and most of the available microcredits have shown to be of low effect on rural firm's success (Morduch 1999, Cotler and Woodfurr, 200, Iakoten et al., 2009). Rosman and Theodos (2008) included financing in the empirical model and found it to be a factor for growth of the business
Credit procedures	X_8(+/ -)	C21	Dummy variable 1= is an obstacle, 0= is not	We have introduced this obstacle variable to control for effects of getting loan to business success, because rural businesses need finance to expand production, innovative operations and grow. Dollar et al., (2005) and Rijekers and Leoning (2009) and Milan V., and Milan S., (2010), in the study of entrepreneurship success, points out on strong relationships between success and access to financial resources, public utilities and growth of the businesses, especially taking into account the rural aspect of the location where the firms are located and where those services are lacking
SUCCESS FACTORS				
Owner Education	X_9(+)	D1	Dummy variable 1=imporant (extremely),	Education of the owner as a success factor that affects business performance. Owners who are educated and tend to be educated in

			0= not important	the business are thus more successful
State Support	X_{10}(+)	D2	Dummy variable 1=important (extremely), 0= not important	Support from state in the business performance as a success factor, if state supports (cutting red tape, enhancing business environment, distributing information and etc) businesses, it will have positive effect on their performance
u_i			Residual, unexplained factors	

Absolute poverty and Regional Disparities in Albania

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Abstract

After 50 years of dictatorial government of communist system, in the early 1991 Albania suffered radical changes of political character which brought at the same time substantial changes in economic and social development of our country.
Poverty as one of the important indicators of economic development level of a region, become a interesting topic of study, in purpose to provide alternative development and adapt strategies in purpose to build specific policies in urban and rural areas towards mitigating this social phenomenon that lies and developed in severe forms in North-East of Albania.
According to the World Bank, definition of poverty is lack of income and unemployment, hunger and malnutrition, ignorance and illiteracy, inability to be sheltered, inability to access to public and social services. In this point of view, studying poverty as a result of regional disparities is especially important in the construction of local development plans in the service of sustainable development for the entire region.
At the end of this study will be given a summary of recommendations in the function of mitigating this phenomenon with social impact, in service to promote sustainable development in the country after a long period of transition with fragile economic and social developments.

Keywords: poverty, political transition, unemployment, social exclusion, disparity development etc.

Introduction

During two transition decades, Albania's economy has changed developing slowly but steady. Differences in development, in time and space are also reflected in the general poverty indicator, and in particular in absolute poverty, precisely because have been regional disparities that have determined the performance of several indicators measuring the index of poverty or or the percentage of the population living below the poverty line.

In this paper, the following steps are necessary to study the concept of the economic poverty phenomenon with greater social effects. In table 1, are reflected the foundation steps of this study and a brief description of basic indikators of the study.

Table 1: Foundation step to define and analyse the Absolute poverty in Albania

Steps	Content	Study Indicators
1	Choose the concept of poverty.	Absolute Poverty or its economic context, focusing on the evaluation of some indicators closely associated with it. In this context in this paper we have analyzed absolute poverty which is based on individuals' or household's income, consumption, education, or other attributes which determine threshold below which the individuals are considered as being poor in that particular attribute.
2	Choose the dimension and time of the analysis.	Regional-Albania/Transition Period The spatial dimension of the analysis is confined to a nation-wide view of the Republic of Albania. In addition will be studied its geographical context, the diversity of its development oriented by inequality in the distribution of income, consumption, or other attributes across the population. In this context, economic poverty will be analyzed in detail in its differences, in both urban and rural.
4	Select what are judged the best indicators within those listed in Step 1.	The Income indicator is judged the best indicator of standard of living, and absolute poverty determination.
5	Products	Conclusions and Suggestions

Source: From various resources developed by authors

For the study of poverty and living standards indicators in the country we refer the evaluations published by Albania National Statistics Institute. One of the methods of data collection is the traditional method of surveying which is base method primarily on the assessment of living conditions, income, etc. as: Household Budget Survey for Tirana (INSTAT, 1994), Survey of Living Standards Measurement (INSTAT, 1996), Level of Living Survey (INSTAT, 1998), Household Budget in Urban Areas (INSTAT, 2000) etc.. The first survey of measuring poverty with all the economic and social indicators was conducted by INSTAT[15], in 2002 and then in 2005 and 2008, based on the same methodology.[16]

Table 2: Data type poverty measurement

Data Type	Institution or Agency	Methodology	Frequency
National level Data			
National accounts: GDP, consumption, investment, exports, imports, and so on	INSTAT	System of National Accounts, Surveys,	quarterly at least yearly
Public finance data: revenues, spending by category	INSTAT, Ministry of Finance	Surveys, Administrative systems,Bugets systems	
Consumer and producer, Prices	INSTAT, National Bank	Surveys, Information system managment at National Bank	
Social Indicators	INSTAT, Ministry of Labor and Social Affairs	Surveys, Administrative systems	Yearly
Local-level data			
Consumer and producer prices, national accounts at regional level	INSTAT, National Bank	Surveys, Information system managment at National Bank	
Availability and use of services	INSTAT, Local administration,	Surveys, qualitative studies	Yearly
Individual and household-level data			

[15] Albania National Statistics Institute

[16] www.instat.gov.al

Household consumption and income; living conditions, social indicators	INSTAT, Ministry of Labor and Social Affairs	Household budget, expenditure, income surveys, multitopic household surveys, Demographic and Health Surveys	Every three to five years
Population statistics, access to services—no consumption or income; literacy	INSTAT	Population census	Every 10 year
Household living standard; illness patterns, malnutrition, education profile	INSTAT, Ministry of Labor and Social Affairs	Rapid monitoring surveys, Demographic and Health Surveys	Every three to five years
Household priorities, perceptions of well-being, user satisfaction	INSTAT, Ministry of Labor and Social Affairs	Rapid monitoring surveys,	Every three to five years

Source: From various resources developed by authors

For absolute poverty measurement in Albania by INSTAT and other agencies are use several data with different character as:

- *Population census* which contains basic information on all citizens of a country. The content of the information census is related especially to demographic structure information, descriptive information about housing stock; access to basic services such as water, electricity, and sanitation etc. Given that census provide information at low levels of aggregation, such as the municipality and commune level.
- *Administrative data* which are the most accessible data source. Their content is related to school enrollment, disease prevalence, malnutrition information, hospital expenses, road network information, and income etc., which are important for evaluation of level of outputs and outcomes, public inputs, as well as their distribution within the country.
- *Household surveys* are essential for the analysis of welfare distribution and poverty characteristics. An important type of household surveys is Living Standard Measurement Study (LSMS) related to household expenditures and income, health, education, employment, agriculture, the ownership of assets such as housing or land, access to services, and social programs.

Absolute Poverty and regional disparities in Albania

Many authors have given various definitions and concepts about poverty and absolute poverty (economic poverty). The concept of absolute poverty is not concerned with broader quality of life issues or with the overall level of inequality in society, but it is concerned with standard of living defined in absolute terms. Usually the term referred to in absolute poverty when an individual or family income is not enough to support a minimum level of physical health and nutrition. In pure economic terms, absolute poverty is when a family's income fails to meet a federally established threshold that differs across countries[17]. Economists often seek to identify the families whose economic position (defined as command over resources) falls below some minimally acceptance level.[18]

In this study we will refer absolute poverty line which is often based on estimates of the cost of basic food needs, that is, the cost of a nutritional basket considered minimal for the health of a typical family, to which a provision is added for nonfood needs.

One of the most important indicators of a country's economic development, but also determining the standard of living and welfare is GDP per capita.[19] In graphic 1, is presented the average of GDP growth in different countries. Albania is one of the countries which has decreased more the growth rate. This situation indicates for Albania a downward trend in living standards and overall well-being. In the pre-transition world literature Albania considered the poorest country of Europe. According to World Bank estimates in 1991 GDP per capita was 340$.Radical political and economic changes in Albania led to the decline of economic growth during the first decade of transition (1989-1998). This relates to:

- The position of a former communist country less prepared by the economic, political, social and cultural to undertake radical reforms towards a market economy;
- Lack of political will to undertake reforms that had begun in other former communist countries;
- Closing state enterprises and production capacities in the mass 80%, which led to increased unemployment and reducing the contribution of all economic sectors in GDP;
- High Inflation at the beginning of transition as a result of structural reforms;
- General crisis in the sector of trade and transport;
- Numerous infrastructural damage in various sectors of the economy;

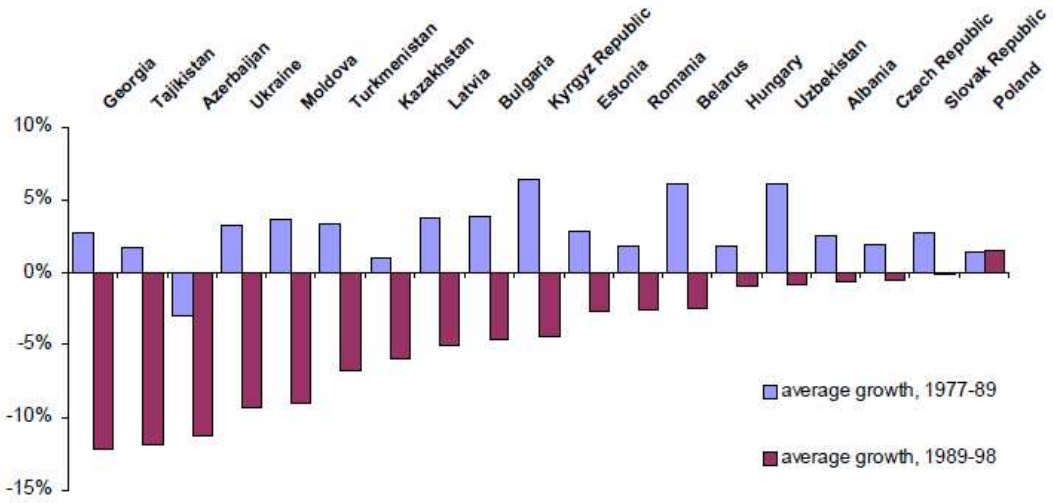
[17] http://www.businessdictionary.com

[18] Smelser, N. J. and Baltes, P. B. (eds.) 2001. International Encyclopaedia of the Social and Behavioural Sciences. Elsevier. Oxford Science Ltd.

[19] Gross Domestic Product (GDP)

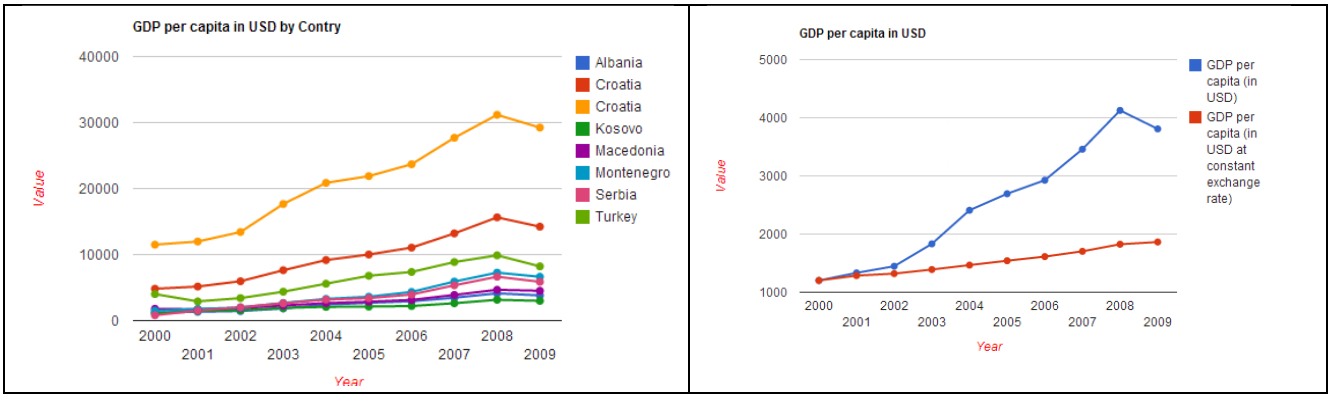
- Loss of laborers through massive emigration in 1991 etc.

Average GDP Growth: Transition Economies, 1977-98



Sources: EBRD 1998; Statistical Information and Management Analysis database; World Development Report 1996; and Milanovic, 1998

In 2009, the GDP per capita at current exhange rate is 3,808 USD, while measured with the constant exchange rate of 2000, it is 1,863 USD. To eliminate the effect of the exchange rate, the GDP per capita growth rate with constant exhange rate is calculated. In this case, the largest increase of GDP per capita is observed in 2008 (13.7%), while the lowest increase was in 2009 (2.11%). In average, the individual wealth of an Albanian person has grown by about 5% over the past decade[20].

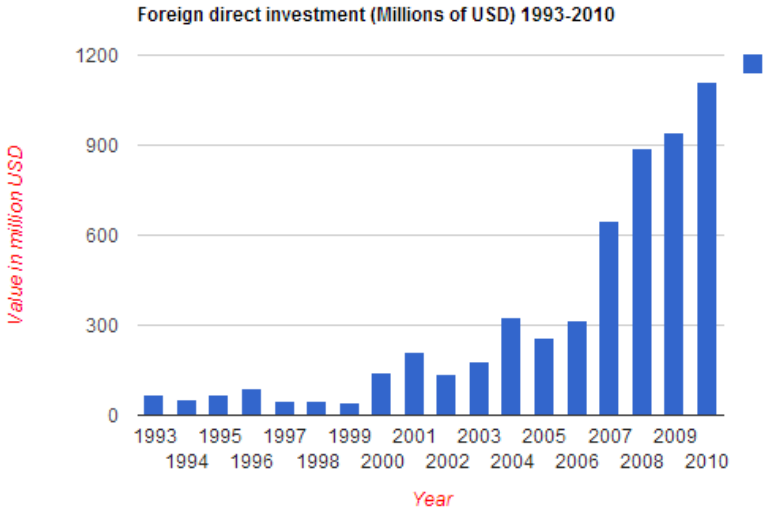


Graphic 2&3 GDP per capita by country/Albania

Source: World Bank

[20] World Bank

The Growth of GDP per capita during this period related to the revitalization of the service and tourism sector, whose share in GDP during this period has been increased. In addition to this, important economic and integration reforms has stimulated development impulses in various activities. The foreign direct investment is still an important source of capital flows and economic development in Albania. The largest increase experienced by the foreign direct investment is observed in 2000 when its growth rate was 249%, while the largest decrease corresponds to the 1997 Albanian crisis, the foreign direct investment decreased by 47%.[21]



Graphic 4: Foreign Direct Investment in Abania
Source: www.open.data.all (Bank of Albania)

Anyway, Albania continues to be in the last places with a GDP per capita of 3,808 USD. Over the last decade, the rate of collection of public revenues (24.4 percent of GDP in 2005) remains much lower than in neighboring countries. Thus, according to International Monetary Fund such values for Macedonia, Bulgaria, Croatia were respectively 35.8%, 40.6% and 44.9%.[22]

INSTAT, in assessment of economic poverty, used methodology "Cost of Basic Needs" (Ravallion and Bidani, 1994). According to this definition, a person is considered poor if its level of expenditure per capita falls below the minimum level needed to meet basic needs for food and non-food items[23]. Poverty line based on the possibility of a community to meet basic needs for food items is estimated at 3,047 leks per capita per month, while poverty line based on the possibility of a community to meet basic needs for non-food items is estimated to be 4,891 leks per capita per

[21] www.instat.gov.al

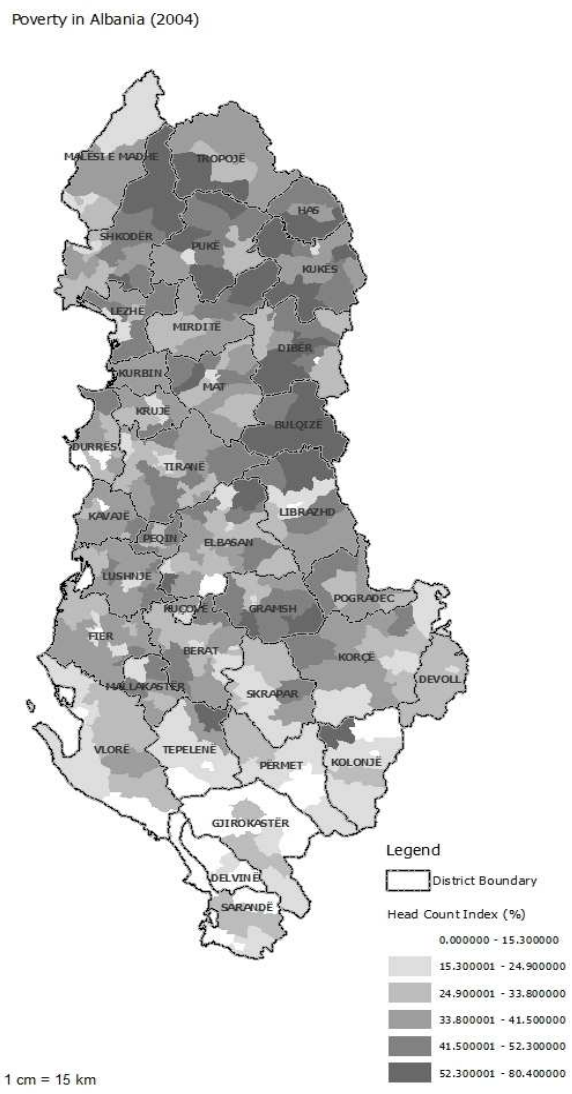
[22] www.instat.gov.al

[23] Ravallion dhe Bidani, 1994.

month[24]. This minimum level of consumption is "economic poverty" and represents the point of division between the poor and those who are not poor. In this context, poverty is a concept that expresses the indicators of income per capita and the ability of individuals to meet basic living needs.

LSMS in 2002, 2005 and 2008, conducted all estimates on poverty based on consumption of food and non-food, which resulted in the following information. Such indicators have reflected in absolute poverty. Since 2002, the poverty index has been declining at a rate of 6% per year. This decline is also reflected in its depth and severity indicators.

[24] LSMS collects all the necessary information to calculate the main components of aggregate consumption, food consumption (both purchased and self-produced), non-food expenses (clothing and footwear, household items), utilities (gas, telephone, electricity, etc.), education, health, housing and durables.

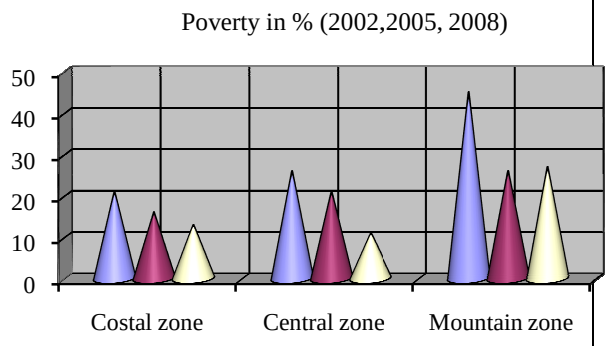


Map 1: Sonila Xhafa

Table 3: Absolute poverty indicators in Urban and Rural areas

Urban Areas	2002	2005	2008
Depth of poverty [25]	4.5	2.3	1.9
Severity[26]	1.6	0.8	0.6
Headcount index[27]	19.5	11.2	10.1
Rural Areas			
Depth of poverty	6.6	5.3	2.6
Severity	2.1	1.8	0.7
Headcount index	29.6	24.2	14.6
Total			
Depth of poverty	5.7	4	2.3
Severity	1.9	1.3	0.7
Headcount index	25.4	18.5	12.4

Source: www.instat.gov.al



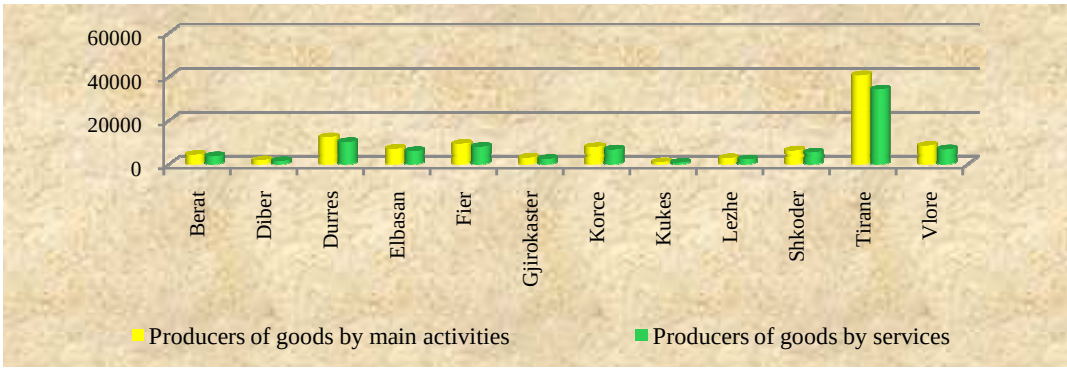
[25] poverty gap/This provides information regarding how far off households are from the poverty line. This measure captures the mean aggregate income or consumption shortfall relative to the poverty line across the whole population

[26] The severity of poverty takes into account not only the distance separating the poor from the poverty line, but also the inequality among the poor.

[27] Incidence of poverty /This is the share of the population whose income or consumption is below the poverty line, that is, the share of the population that cannot afford to buy a basic basket of goods.

Based on the data of Table No. 3 and map No. 1, results that poverty is expressed in:

- *in the northeastern and northern regions* than in the central and coastal. Albania is diverse based on natural conditions, human and economic potential and as such it differs for regional development disparsities also reflect in the headcount index or in percent of poor people. This index is higher in mountain region. In the following graph reflected very low values of this region (Dibra and Kukesi Counties) in the production of goods by economic activities and services. For higher indicator of GDP per capita distinguishes Tirana, with 545 thousand LEK[28] or 51.2% above the national average [29]. Many northeastern regions have not been able to recover the lost economic activities after 1991. This relates to the fact that this region is largely mountainous, with difficult natural conditions and poor infrastructure, that impede the realization of collaborations with major economic centers within and outside the country.



Graphic 6: Producers of goods by main activities and by services

Source: Author

While coastal regions differ for lower rates of poverty. This relates to:

a- favorable conditions to economic development in the region which is mostly dedicated to the favorable geographical and strategic position. In this region are located the most Important residential, urban and economical centers, creating significant opportunity in employment offers and services for the community, business and trade, rapid development of the private sector, etc..

[28] national currency

[29] *INSTAT, Prodhimi i Brendshëm Bruto në Republikën e Shqipërisë sipas nivelit statistikor 2 dhe 3. Tiranë 2009. ëëë.instat.gov.al*

b- major opportunities for the development of transport, trade and tourism. Albania possesses a coastline with considerable stretch with a length of 450 km, which is an important asset for the development of tourism and maritime transport

c- largest concentration of the work age group and and that the qualified due to the massive population arrivals mainly from the northern, northeastern and eastern regions. The most importan urban area in the country, Durres-Tirane constituted the highest gravity towards immigrants, which has absorbed 72% of immigrants during the period 1989-2001. In this area was centered about 45% of the population (1.7 million people)[30]

- *in rural areas than in urban areas and specifically in northeastern communes*. Urban poverty has fallen faster than in rural areas with a difference of rate of decline about 12%. This relates not only to reduced economic indicators in rural areas compared to urban areas but also to relative poverty indicators as relatively higher incidence of health risks, undeveloped medical services, limited opportunities for good education, insufficient public services etc

Absolute Poverty Indicators

Although poverty has been identified as a disparity in the distribution of goods among different categories of population, income is the most important indicator and representatives of absolute poverty, inequality and disparsities in regional development.

A. The monthly income as an indicator of welfare

Albania remains one of the countries with the lowest income per capita in Europe. Daily income in country level are on average less than $ 1.8 per capita in the city, about $ 1.2 per day in rural areas. According to the data obtained in the Institute of Statistics, the average income in Albania are 38.141 LEK. Based on the data table shows that:

- generally monthly income are lower in rural areas than in urban ones. Individuals living in rural areas receive monthly income about 30% less than those in urban areas.

Table 4: Monthly Income in Albania

	Total monthly income	Rural Areas	Urban Areas
Shqiperia	38.141	31.499	45.053
Rajoni Verilindor	25.063	23.096	29.751
Rajoni Qendror	33.390	30.238	37.874

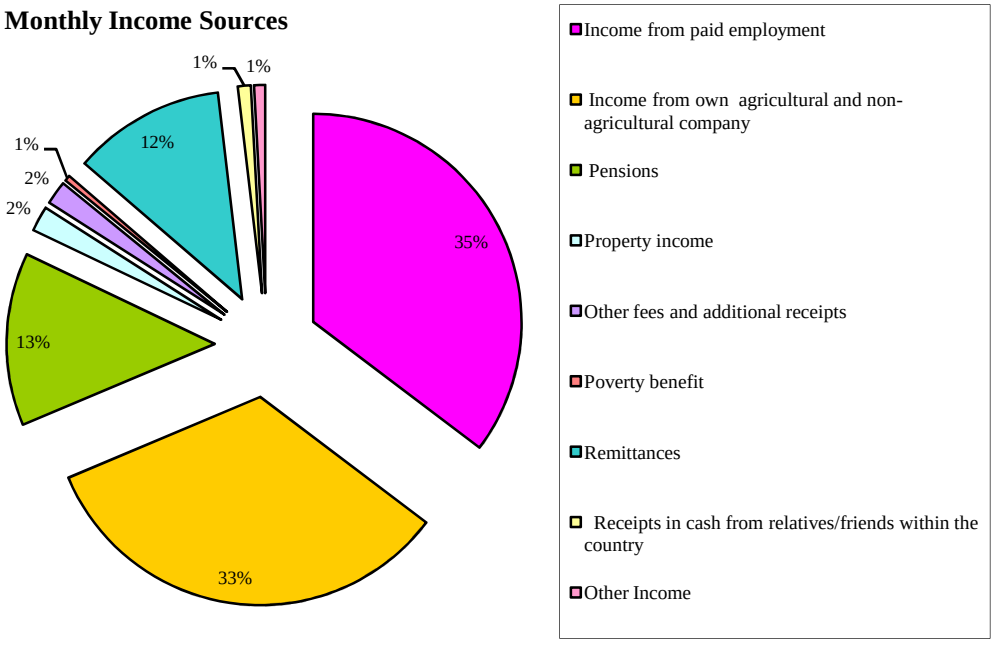
[30] INSTAT, Migrimi në Shqipëri, 2001

Rajoni Bregdetar	34.296	30.749	38.376
Tirana	56.434	50.226	58.812

Source: INSTAT

- monthly income are lower in the Northeastern region and mainly in its rural areas, where individuals take 25% less compared to rural areas in the coastal region and 54% less compared to rural areas in the district of Tirana.

In Albania, the main source of monthly income are income from paid employment which occupies a weight of 36% of the total monthly income.

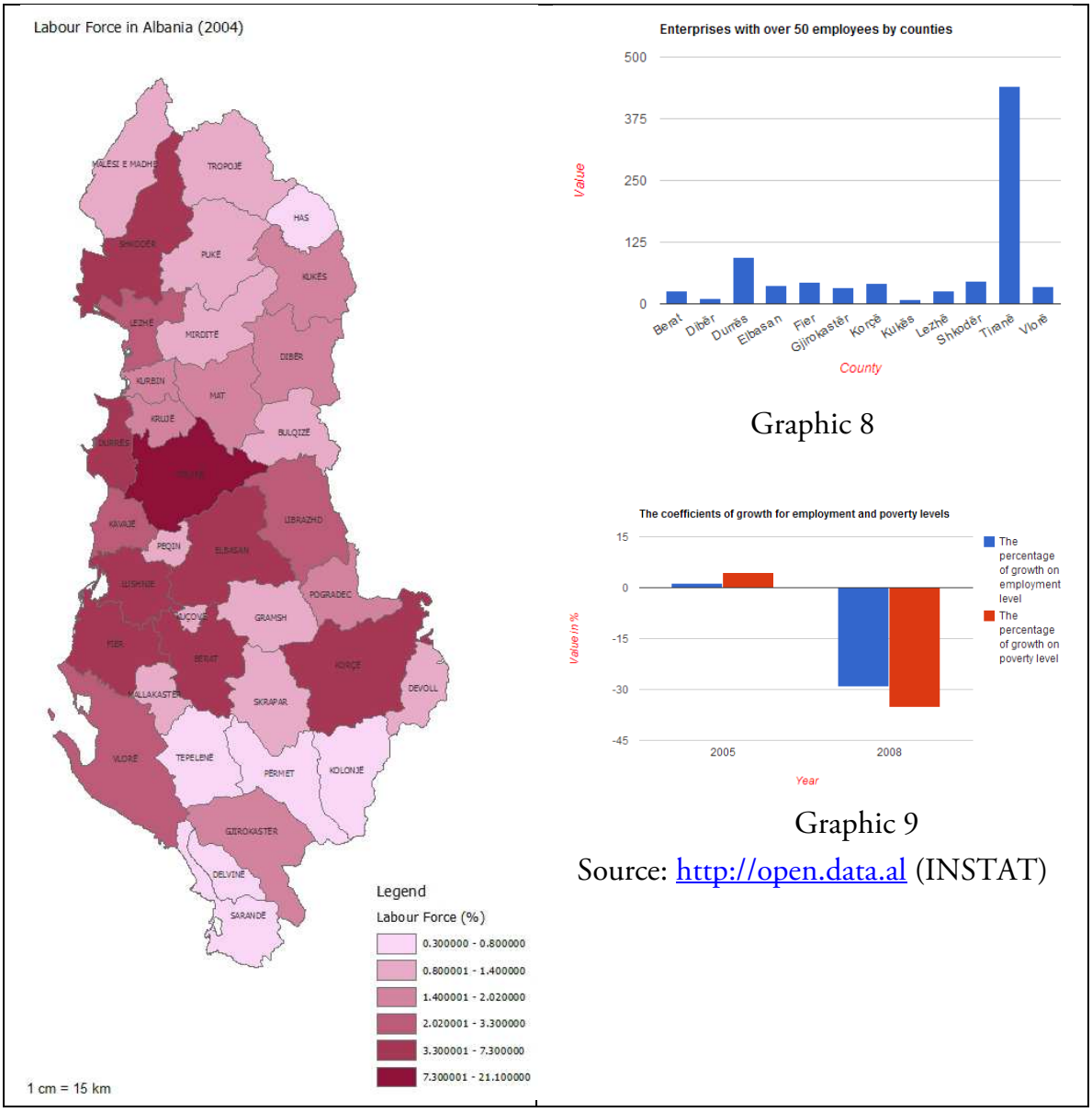


Graphic 7: Monthly Income Sources

The main weight to the monthly income in rural areas have income from own agricultural and non-agricultural company which occupy about 40%. Monthly income in urban areas provided mainly by income from paid employment which occupies about 45% of total monthly income.

Low income in Albania, mainly in the northeastern communes related to the following factors:

- *restricted labor market and the low rate of labor force participation.* In general, the employment rate has fallen in Albania. Based on the map below note that the northeast region distinguishes for the lowest percentage of the labor force. Labor forces are concentrated mostly near urban centers and coastal regions since the offer of the labor market is wide. The most problematic counties related to the number of the enterprises with over 50 employes are Kuksi and Dibra (North-East Region) with respectively 8 and 11 operating enterprises of this size. In Tirana operates 52.19% of these enterprises. Low level of employment in the region has consequently led to increased inactivity in the labor force.



Source: http://open.data.al (INSTAT)

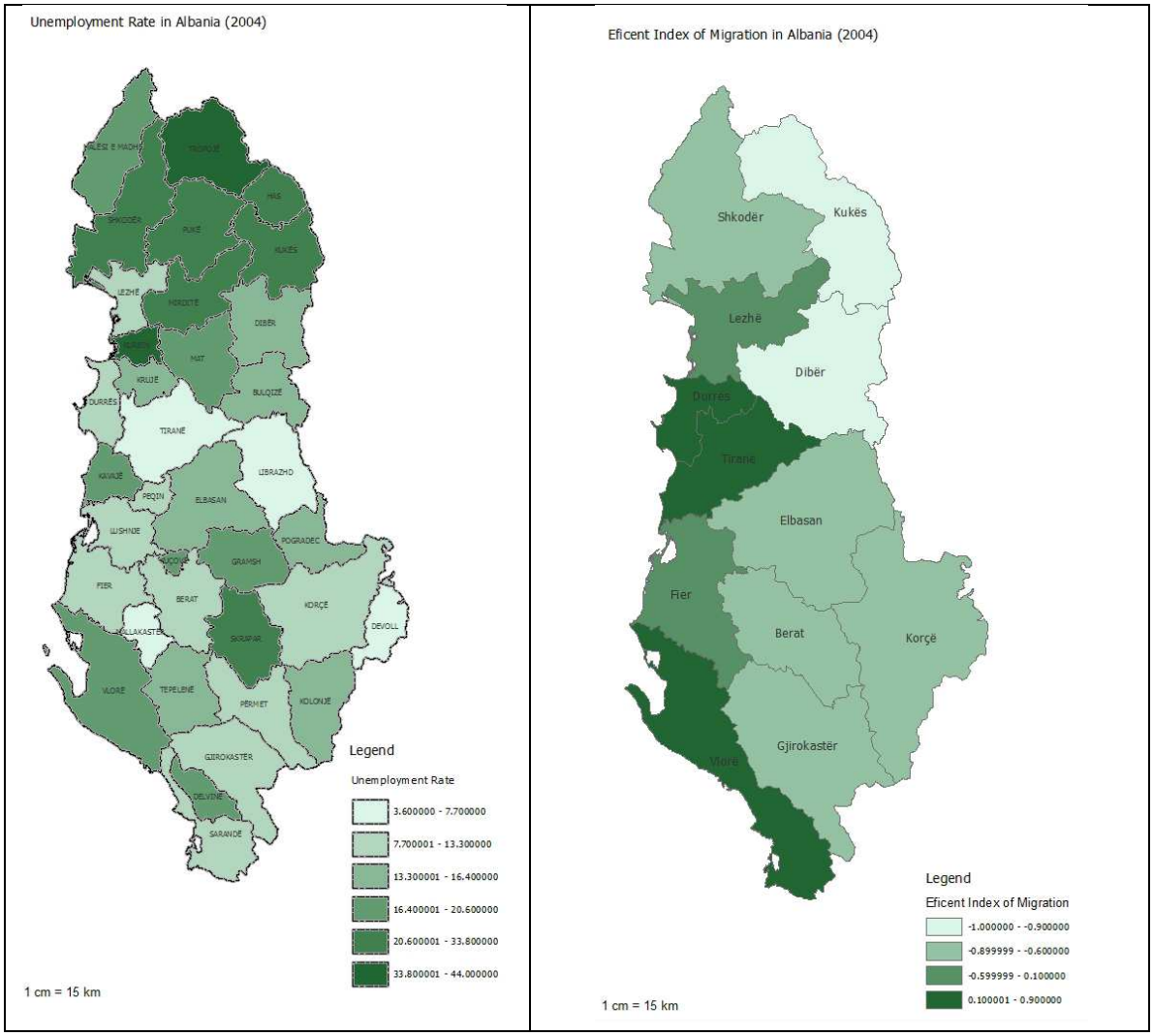
- *Unemployment Rate.* For that part of the community that have lack of material and productive assets , labor power is the core component of most survival strategies and therefore is perhaps the most important human capital asset. As explained in the Benin report, loss of a productive adult "whether due to disease, death, divorce, or neglect drastically reduces a household's capacity to overcome external shocks and is one of the main causes of destitution" (Benin 1994)[31]. The unemployment rate in Albania is 13.1%, while in the northeastern region, the registered unemployment rate and that of long-term

[31] Amnesty International, *Amnesty International Report 1994 - Benin*, 1 January 1994, available at: http://www.unhcr.org/refworld/docid/3ae6a9f418.html [accessed 12 April 2013]

unemployment are respectively 31.6 and 30.8[32]. This relates also to the high unemployment of women in the northeastern region. Women in urban areas are almost twice as likely to be employed than women in rural areas (40 percent compared with 22 percent). Closure of industrial enterprises, brought high unemployment mostly in women group. Another factor was associated with the difficulty that has this category to adapt to the new conditions of the labor market in the northeastern regions and in rural areas. Linking poverty employment is a negative correlation. According to INSTAT data rate of employment growth was 4.5% from 2005-2008, while poverty reduction was 35.18% for 2005-2008.

Unemployment is expressed in the northeastern and southeastern areas, as well as in rural areas because these regions are characterized by low level of education and qualifications of jobseekers. It is often difficult for families to invest in education. In some cases parents make considerable sacrifices, including rationing food to reduce household expenses so that their children can go to school, but in other cases children have given up studying to become merchants and tradesman because access to higher education is denied to those without resources.

[32] INSTAT, Tregues sipas qarqeve 2010, 2011



- Supporting rural income households mainly agricultural economy. With no other sources of livelihood other than agricultural land, rural families live only of income and land owned products. Farms with smaller size observed in the prefectures of Kukes, Dibra, Shkodra and Lezha (with average respectively of 0.52 ha, 0.58 acres, 0.93 acres and 1.00 acres[33]. Farmers have the greatest risk of being poor (2 in 5 poor are farmers). Income that provides population from agriculture are 2.4 times lower than those provided by public sector employment and 1.7 times lower than in the non agricultural self-employment[34]. Low income coming from the agricultural sector relate to: (a) the lowest indicator owning agricultural land. The average size of the parcel owned by a household is around 0.18 ha and farm 0.62 ha,[35] indicating that there is little potential opportunities to further develop

[33] Ministria e Bujqësisë, Ushqimit dhe Mbrojtjes së Konsumatorit, Strategjia Sektoriale e Bujqësisë dhe Ushqimit (SSBU) 2007 – 2013.

[34] INSTAT

[35] INSTAT

agricultural activities; and (b) low of agricultural land fund indicator. Northeast region differs: lower agricultural land fund, which accounts for about 10.5% of the total land, lower of arable land fund, for lower productivity of agriculture and livestock etc..[36]

Family Poverty Benefit

Households with the same "income-to-needs ratio" may have different living standards, because indicators of annual income may misrepresent actual household economic and material resources[37](Mack & Lansley, 1984, pp. 129- 132). Poverty Benefit Indicator reflects families in living difficulties. Poverty benefit helps around 97,540 families. According to data obtained from the Ministry of labor and social affairs results a decrease in the number of households that receive social assistance compared to 2005, but for a growing trend over the last three years. While social assistance fund has been steadily increasing. Northeastern region differs for high indicator of households that benefit social asistence.

Table 5: Numer of households that benefit social asistence

Regions	Total	Partial social asistence		Full social asistence	
		Total	Rural Areas	Total	Rural Areas
Albania	**360.921**	**225.484**	**193.849**	**135.437**	**125.708**
Northeastern region	99.259	81.937	74.942	17.321	16.282
Central Region	157.453	98.086	90.475	59.368	56.710
Costal Region	33.762	19.289	14.298	14.473	12.927
Tiranë	49.172	20.717	8.971	28.455	25.658

Source: INSTAT

Wealth index

The wealth index is a measure related with inequalities in household income. (Rutstein et al., 2000). The wealth index is constructed by assigning a weight or factor score to each household asset. According to World Bank estimates, results that mountainous region, is part of the lowest

[36] Ministry of Food, Agriculture and Consumer Protection

[37] Mack, J. and Lansley, S. (1985) Poor Britain, George Allen and Unwin

quintile of wealth, where 45.7% of the population belong to this group. In the following table is calculated the Gini coefficient[38], which indicates the level of concentration of wealth, which is an indicator for the level 0 equal distribution and 100 totally unequal distribution. This coefficient positions the mountain regions, as regions where wealth is less evenly distributed (with indication 32.8%).

Table 6: Distribution in% of population by wealth quintiles and the Gini coefficient, 2008-2009

Regions	Lower	Low	Medium	High	Higher	Total	Gini Co.
Coastal	15	24.5	24.1	21.5	14.9	100	23.8
Central	24.4	23	23.8	17.6	11.3	100	26.9
Mountain	45.7	24.7	11.9	11.8	6	100	32.7
Tirana	0.0	0.2	6.7	29.5	63.6	100	4.6

Source : INSTAT, LSMS

Migration balance

During the first decade of transition, Tirana and Durres absorbed approximately three-quarters of the total flows of internal migration. According Carletto (2004) internal migration is mainly driven by poverty. The map of Index of migration efficiency, Kukesi and Dibra county, part of the northeastern region differ for low indicators of this index, where migration balance was negative. These two prefectures lost about 1/3 of the population[39] Massive removals of the population in Northeastern region come as a result of economic backwardness. In this context, the negative balance of migration is an indicator of poverty.

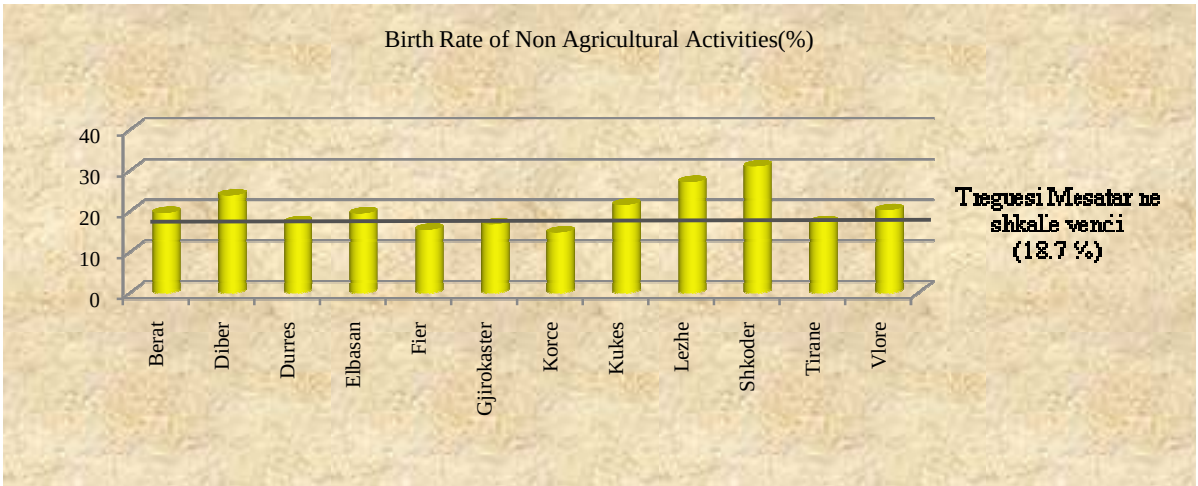
Rural to urban migration has not led to the displacement of poverty in urban areas. Generally urbanization and living in the city has led to improved quality of life for this category. The city has provided education, employment and higher income.

[38] The Gini ratio (or index of income concentration) is a statistical measure of income equality ranging from 0 to 1. A measure of 1 indicates perfect inequality; i.e., one person has all the income and rest have none. A measure of 0 indicates perfect equality; i.e., all people have equal shares of income.

[39] Regjistrimi i popullsise 1989, 2001, INSTAT

Conclusions and Suggestions

Despite pessimistic values of indicators of poverty in the Northeastern region, the index of non-agricultural development activities in this region is promising compared with the average of this index. The development of these activities is an important mechanism with significant impact on poverty alleviation.



Grafic 10

Source: Author. INSTAT data

In this context suggested the following actions:

- Reduction of unemployment through development of policies facilitating participation in employment of specific groups, particularly women, vocational training of unemployed job seekers, labor market expansion in non-agricultural sectors etc..
- Use of unexploited potentials for tourism and agriculture in the Coastal Zone. Durres is the center of tourism, trade and transport of goods and people Creating the conditions for a more extensive development of these sectors, mainly northward transport will enable rapid integration with Coastal Zone in the Balkans, mainly in neighboring countries such as Montenegro and Kosovo. This will soften even more poverty in the future for this region.
- The development of the national transport network infrastructure will facilitate the movement of people and goods, will bring markets closer and as a result will promote business, will increases access to important basic services, such as health and education with a direct impact on the citizens' living standards, while the development of the national road network, cross-border roads, port facilities and airports will help achieve greater integration with the region and the European single market;

- Giving priority to investment in the public sector, which contribute directly to the improvement of living standards as the right of land use, food security, essential services and other opportunities;
- directing migrant remittances toward business investment in rural areas
- expand rural non-farm activities, in addition to raising agricultural productivity of small scale farmers to improve rural incomes. Poverty reduction is closely linked with agricultural production growth, as a main source of income, but also with non-farm employment. Therefore farm modernisation and diversification into activities that generate income in rural areas (development of agro-processing, services, trade and artisanship) will be the main directions.

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External Trade Policy of BiH and Herzegovina: Effect on Unemployment

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Prof. Dr. ErkanIlgun

Abstract

This study investigates the impact of external trade of unemployment in BiH from 2007 to 2012 on monthly basis. Data for unemployment and international trade is collected from "Agency for statistics in BiH". Analyze is done in SPSS, firstly is made calculations in descriptive statistics to show minimum, maximum and average unemployment, export, import. Then it is used regression analysis, in whose model unemployment is dependent variable, while export, import, trade deficit, minimum wages, net salaries, GDP, inflation rate and industrial production growth rate are independent variables. Result showed that export, minimum wages, net salaries, GDP, inflation rate and industrial production growth rate are effecting unemployment. This analysis should help government and CEO to improve export, GDP, inflation, industrial production, salaries and to reduce import and unemployment.

Keywords: international trade, export, import, labor market, unemployment, GDP, wages, inflation.

Introduction

International trade comes with international division of works and with need for trading between producer in one country and consumer in second country. Consumers are looking for products that are hard to find in its country or because of some other reason as power and richness. Connection of production and international trade with intensive development of production power gives to

international trade special role in economic development of a country[40]. Auerbach (1996) sad that most basic, economic exchange across national boundaries has taken place for several centuries. Furthermore, one of the most remarkable aspects of economic life nowadays is the manner in which all countries increasingly find themselves an intrinsic part of the global economy.[41] Coutts and Godley (1992) suggested that every country have to export goods and services for its revenues which will finance it imports goods and services.[42]Countries do international trade for two reasons, each of them contributes for gains from trade. First, countries trade because they are different. Countries like to be individuals, they can benefit from differences by which can benefit relative well. Second is country want to achieve economic of scale. This means country produces limited range of goods, it can produce larger scale of these goods and be more efficiently than it tried to produce everything.

The majority of empirical studies of the relationship between international trade and the labour market have been at an aggregate level, such as the level of the manufacturing sector or the tradables and nontradables sectors.[43] During the last 20 years, a generalized reduction in the aggregate demand for labour paralleled the developments in international trade.[44] All workers are fully employed at a common wage and hence are selected symmetrically by the opening of trade.[45] Haskel and Slaughter (2001) argues that intenrational trade effects unemployemnt but that stillexist question in which way its operate.[46] Wood (1997) in his research say that also trade liberezation lead to oppening new places of employment.[47] Krugman (1995) identified four new aspects of modern world trade through which trade can impact on labour market outcomes: the rise of trade in similar goods between similar countries (so-called "intra-trade"), the ability of producers to split up the production process into stages, the emergence of "supertraders" (countries with extremely

[40]Džombić, J.I., Ekonomski odnosi BiH sa inostranstvom.

[41] Auerbach, P., 1996. Firms, competitiveness and the global economy, in Mackintosh, Economics and Changing Economies.The Open University, London, 393-425.

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[43]Chetwin, W., Bairam, E.I., 2001. The effects of international trade on employment: heterogeneity among 2-digit ISIC manufacturing industries.

[44]Turrini, A.A., 2002. International Trade and Labor Market Performance: Major Findings and Open Questions. United Nations Publications.

[45]Helpman, E., Itskhoki, O., Redding, S., 2011. Trade and Labor Market Outcomes (Working Paper No. 16662). National Bureau of Economic Research.

[46] Haskel, J., Slaughter, M. J., 2001. Trade, technology and U.K. wage inequality. The Economic Journal 111,163-187.

[47]Wood, A., 1997. Openness and Wage Inequality in Developing Countries: The Latin American Challenge to East Asian Conventional Wisdom. World Bank Econ Rev 11, 33–57.

high ratios of trade to GDP) and the emergence of large exports ofmanufactured goods from low-wage to high-wage countries.[48] Lurweg and Uhde (2010) in they research argued effects of internationl trade on unemployment in Germany. By their research effect of trade on employment is low, but trade can get to lower wages and to increse unemplyoment.[49]

This paper examines relationship between external trade (export) and unemployment in BiH. Objective of this work is to determinate external trade effects on unemployment and external trade policy of BiH. The research is made by the following order: Firstly the data is determined, second is to show benefits of external trade by researchers of past studies and third is to show what are effects of external trade on unemployment. This paper can contribute for improving economic development, improving macroeconomic stability by giving solutions for rising GDP, industry and decreasing of unemployment in BiH.

External Trade Policy

Main determinants of external trade policy are to determine export and import. Import is defined as buying goods and services from other countries, and export is defined as selling goods and services to other countries. Main motive to participate on international market and to export goods and services are to have good revenues. These revenues are insurance for having money to pay salaries, to have good terms for work and also to increase production. In each country there is a pronounced interest of society and the state in the development of foreign trade, no matter what, at first sight it concluded.[50]Export expansion and openness to foreign markets is viewed as a key determinant of economic development because of the positive externalities it provides.[51]

In defining rules and laws most important is to determine instruments of external trade policy. These instruments are important for regulation of international trade way between country and others. Instruments works are to develop and care interest for country economy. These instruments are classified on:

- Tariff measures

[48]Krugman, P.R., 1979. Increasing returns, monopolistic competition, and international trade. Journal of International Economics 9, 469–479.

[49]Lurweg, M., Uhde, N., 2010. International Trade and Individual Labor Market Perspectives: A Micro-Level Analysis of German Manufacturing Workers (SOEPpapers on Multidisciplinary Panel Data Research No. 297). DIW Berlin, The German Socio-Economic Panel (SOEP).

[50]Andrijanić, D.I., 2001. Vanjska trgovina: kako poslovati s inozemstvom. Mikrorad..

[51]Huang, W.-T., Tsendsuren, S., 2012. The relationship among exports, imports and economic development: Evidence from Mongolia, in: 2012 9th International Conference on Service Systems and Service Management (ICSSSM). Presented at the 2012 9th International Conference on Service Systems and Service Management (ICSSSM).

- Quantitative restrictions
- Technical and administrative barriers.[52]

Tariffs as instrument of external trade policy are the most significant instrument of external trade policy. With customs countries are trying to protect their economy and to regulate trade relationships. Now custom does not have independent system. With international trade agreements which are regulates trade between two countries gives right to countries to don not pay any custom fees.By trying to protect domestic products then countries are prescribing in agreements some restrictions. One of them is quantitative restriction in which is well known how much a country can import some goods. Many countries were used this restriction. But this restriction did not get anything good and GATT (General Agreement on Tariffs and Trade) prohibited this restriction and give to countries to use only tariffs as instrument for international trade. Also today countries are using some technical and administrative barriers. These barriers can be some export license, regulations and tariffs. Mostly countries are using these barriers to disable of importing goods.

Labor Market

Labor market is one of key element in economy. Labor market as market is constructed of buyers and sellers, buyers are employers while sellers are workers. Its understanding and making to function do labor economics.Traditional economic literature considers unemployment indicators to be the main proxies of labor market performance.[53] Such collective definition covers various methods for determining the amount of labor used in the economy, determining its cost, the mechanisms of allocation factors and income distribution, the functional relationship between the use of labor, capital accumulation, economic growth and the introduction of new technologies, as well as development work, both through life cycle of individuals and of society.[54]

The main objectives of policies and labor market institutions most frequently are:

- the reduction of unemployment,
- reduction of segmentation in the labor market and reducing the plight of the risk groups in the country,
- promoting regional, sectoral qualification and mobility

[52]Džombić, I.J., 2010. Ekonomski odnosi BiH sa inostranstvom.

[53] Perugini, C., Signorelli, M., 2004. Employment Performance and Convergence European Countries and Regions. The European Journal of Comparative Economics 1(2).

[54]Mrnjavac, Ž., 2002. Povijest ekonomije rada i pogleda ekonomske teorije na nezaposlenost. Faculty of Economy in Split.

- an increase in labor productivity.[55]

Labor market are consisting of those who are employed and unemployed but which want to be employed. Employed people are those who have jobs and its salarise. Opposite is unemployment, and unemployed people are those who are not working. Fajana (2000) describe unemployment as the state of work lessens experienced by persons who are members of the labor force who perceived themselves and are perceived by others as capable of work.[56]

Unemployment is biggest economic problem in a world. Goldsmith, Veum, and Darity (1997) showed that unemployment with negative effect in future can get negative effect of employment.[57] Especially of countries which economy is instable. Also mental state of not finding a job can get to long term and structural unemployment by research of Ball (2009).[58] Hard to employment are getting youth. In Bells and Blanchflower is showed that youth unemployment will not give only social problem, also it will get problem with crime.[59]

Economy of BiH

Economy crises deeply got BiH. Relatively undeveloped country, politically seperated and without clearly direction of economy development BiH is effected with high global economy crises. Main objective of external policy BiH is to get membership in EU. To reach this objective BiH government has to agree on consensus of public and social subjects. To reach objective it is not easy, but with huge effort it can be realized. Main effort is to improve domestic economy. BiH economy is very poor and it is one of weakest economy in the world, but also it is behind in region. Macroeconomic stability and economic development is most important things to get in EU. Most important goals for BiH are macroeconomic stability and economic real growth. Even macroeconomic situation is improved this is not giving much better result in some of most important economic trends. BiH has slow economic development because of high unemployment, lack of investments, large deficit among export and import and low productivity. Also economic

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[58] Ball, L.M., 2009. Hysteresis in Unemployment: Old and New Evidence (Working Paper No. 14818). National Bureau of Economic Research.

[59]Bell, D.N.F., Blanchflower, D.G., 2010. Youth Unemployment: Déjà Vu? (IZA Discussion Paper No. 4705). Institute for the Study of Labor (IZA).

growth did not get any results in increasing its development and reduction level of developed countries which are in economic transition.

BiH on macro economy market have nominal economic indicators like currency stability on the relation of Euro, fixed exchange rate and low inflation. But the real growth rate is showing economic backwardness, it is showed in high unemployment, high deficit of trade and high external debt. Nominal rates can be dangerous for macroeconomic stability of BiH because stability of prices can be transformed in conditions where everyone can make decisions which will get to high economy instability.

TABLE 2.1 Macro-Economic determinants of BiH

	2007	2008	2009	2010	2011	2012
Nominal GDP in BiH (in millions of KM)	24.424	28.116	27.895	27.955	28.693	29.437
Nominal growth rate (in %)	15,50%	15,10%	-0,8%	0,20%	2,60%	2,60%
Real growth rate (in %)	10,40%	7,00%	-1,8%	1,00%	1,40%	0,20%
GDP per capita (in KM)	6.357	7.318	7.259	7.274	7.466	7.660
Net salaries in BiH (in KM)	645	752	790	798	816	825
CPI (consumer prices index)	1,50%	7,40%	-0,4%	2,10%	3,70%	2,20%
Balance of payments**						
Current account balance (in millions of KM)	-2.328,5	-3.464,4	-1.502,8	-1.498,2	-2.233,3	-2.215,1
In % of GDP	-9,5%	-12,3%	-5,4%	-5,4%	-7,8%	-7,6%
Growth rate in %	18,50%	15,10%	-22,9%	9,30%	12,50%	-0,4%
Balance of good and services in % of GDP)	-28,0%	-28,9%	-19,9%	-19,0%	-21,0%	-20,8%

Source: Agency for statistics in BiH

GDP after war period was constantly growth, but in 2009th GDP recorded decline because of financial crises. At that period BiH Nominal GDP was about 27.9 billion of KMs. Its real growth was declined for -1.8% unlike 2008. In this period all production was smaller, export was less than in recent years. Also in 2009 came to bigger unemployment. Because all production activities were in falling in main sectors as in manufacturing and construction sector. And this decreased activities lead to decreasing in finance and trade. After 2009 BiH marked increasing in GDP. Especially in 2010 and 2011 as recovering from financial crisis. In 2010th economy of BiH started to partially recover from financial crises. Nominal GDP in KMs was approximately 28 billion and real growth was about 1% unlike 2009. In 2011 nominal GDP was approximately 28.7 billion KM and its growth was 1,4% unlike 2010. 2012 was year in which nominal GDP was a little bit better than in

2011. It was approximately 29.4 billion KM and real growth was about 0.2%. This growth was very small because in years from 2010 and 2011 was more than 1%. This decreasing happened because of political instability, small investment and large deficit.

Labor Market in BiH

BiH labor market is decentralized, it is divided on entities which are differs on its organization, system of financing, departments of employing and all other aspects. On decentralized labor market comes different taxes on salaries and insurance rates. This makes large problems for institutions and departments for employing, also it is making negative effects on employment and making paradox in finance public departments. When unemployment is high, the system of employment service receives least financial resources and if the unemployment rate decreases, the system will receive more income.[60]

On level of BiH main department for employment is Agency for work and employment, in Federation of BiH are made institutes in cantons while in RS there is centralized departments for employment and in Brcko District the is institute for employment. Mobility of labor is very low in BiH. Money for encouraging for employment has limited resources.

BiH is country with approximately 4 million citizens. Its working capable population from 2007 to 2012 decreased. In table 2.2 is showed that biggest numbers of working population are in 2007 and from 2008 to 2011 decreased, but in 2012 it started to increase and in 2012 total number of working capable population more than 2.5 million. Also in table 2.2 is showed active and inactive population in BiH. As showed in table 2.2 there is more inactive then active population, also active population from 2009 to 2012 was increasing while inactive population was decline. Problem of declining working capable population is in slow economic progress

TABLE 2.2 Labor market in BiH

	Year					
	2007	2008	2009	2010	2011	2012
Working capable population	2.725.000	2.649.000	2.594.000	2.597.000	2.561.000	2.566.000
Active population	1.197.738	1.189.339	1.194.578	1.205.479	1.224.645	1.235.372
Inactive population	1.527.262	1.459.661	1.399.422	1.391.521	1.336.355	1.330.628

Source: Agency for statistics in BiH.

[60]Crkvenac, M.,1997.Ekonomska politika. Inoramtor Zagreb, 160.

BiH has enormous problem with unemployment. It is biggest economy problem of BiH. After war period many people stayed unemployed and from that to now BiH market labor has negative indicators. BiH politics, its instability and structure effects.

TABLE 2.3 Total unemployment in BiH from 2007 to 2012

	Year					
	2007	2008	2009	2010	2011	2012
Total Unemployment	510,294	483 251	510 534	522 080	536,728	550,255
Male	261,344	237,532	254,718	260,334	266,500	273,08
Female	248,950	245,719	255,816	261,746	270,228	277,175

Source: Agency for statistics in BiH.

Total unemployment in BiH is very high. In 2008 it started to failing but with coming of recession in 2009 it started again to increase. In 2012 it is more than 550.255 people. In 2007 there were more men unemployed but from 2008 unemployment by gender changed. It is similar number of unemployment by gender but there are more unemployed women then men. The biggest number of unemployed men ad women is in the 2012 and there are more than 270.000 people respectively.

External Trade Policy of BiH

Foreign trade policyof Bosnia andHerzegovina isinpowersof State Bosnia and Herzegovina, whileEntityinstitutionfollowsbase offoreign tradepolicyof Bosnia and Herzegovina. Entity ministriescooperate closelywith the Ministryof Foreign Tradeand EconomicRelations of Bosniaand Herzegovina.External trade policy is determined by law, acts and regulations. These laws are made by assembly of BiH in 1998. Main elements of these laws are made to determine export and imports of goods. These laws and Ministry of External trade and Economic relations are responsible for preservation of trade, protection of domestic market, investing in external trade and making country economy stability.

TABLE 2.4 Total exports and imports in BiH from 2007 to 2012.

Year	Turnover of goods	Exports	Imports	Trade balance
2007	19.834.826	5.936.584	13.898.242	-7.961.658
2008	22.997.746	6.711.690	16.286.056	-9.574.366
2009	17.886.378	5.531.199	12.355.179	-6.823.980
2010	20.711.709	7.095.505	13.616.204	-6.520.699
2011	23.748.297	8.222.163	15.526.134	-7.303.971
2012	23.110.904	7.857.962	15.252.942	-7.394.980

Source: Agency for statistics in BiH. in thousands of KM

In table 2.4 are showed total exports and imports of BiH in KMs. The most export BiH had in 2011 more than 8.2 billion KM and smallest export was in 2009 5.5 billion KMs. Bigger problem is imports that is larger twice then exports. In 2008 it was more then 16 billions KMs and the smallest import was in 2009 it was about 12.3 billion of KMs. Because of bigger imports then exports BiH trade is in deficit. Smallest deficit was in 2009 and 2010, but from 2011 and 2012 it was increased. Turnover of goods are showing increasing from 2010 to 2012 but it is not because of high exports, it is because of higher and higher imports that is destroying economy of BiH.

Literature Review

There are few models on which are based international trade and labor market. Felbermayr, Prat, Schmerer (2011) which did robust empirical analysis in which investigated how trade and unemployment effects each other. They used two types of data. The first category consisted data of 20 OECD country and second used data from larger number of countries. Data consisted of business cycle effect, geographical variables and country trade. The study came to conclusion that in the short term trade can not effect unemployment, while in long term possibility is for higer term with lower unemployment.[61] In second research Kim (2010) also talk about effects of trade on unemployment. Empiraclly investigated two hypotesis. First hypotesis research how trade directly effect aggregate unemployment and in second hypotesis investigated how trade effect unemployment. Data used from 20 OECD countries from 1961-2008. Research results finds if trade increase that it will be higer aggregate unemployment, but aggregate uneployment could reduce if labour market is flexible.[62] Amornthum (2004) tried to give some theoretical explenation between trade and unemployment. He is explained by three ways of unemployment: 1)The minimum wage approach predicts uneployment will be high if wages are low. 2) The implicit contract theorem argues unemplyoment can be reduced with export, but depending on type of goods that are exporting.3) Efficency wage model predict thaht unemployment could decline if opportunity cost wolud be higer.[63] Kaminski and Francis (2010) did research of BiH exports. By their empirical analysis BiH has suprising good exports growth rates. Also they argues taht in SEE 6 countries they have best export. Also they argues that BiH have unique chance to have good export rate to EU because BiH has 95% free export. And also authors saying that they have not that chance

[61]Felbermayr, G., Prat, J., Schmerer, H.-J., 2011. Trade and unemployment: What do the data say? European Economic Review 55, 741–758.

[62]Kim, J., 2011. The effects of trade on unemployment : evidence from 20 OECD countries, Working paper / Department of Economics, Stockholm's University ; 2011,19. Stockholm : Dep. of Economics.

[63]Amornthum, S., 2004. Trade and Unemployment.

by CEFTA agreement.[64] Grahovac (2010) tries to give position of BIH on international market. By it conclusion one of most important thing is to have macroeconmoic stability. Also the trede deficit has to be reduced by trying to have better export. And also that BiH goverment has to work at sectors of macroeconomy politics to develop economy.[65]

Methodology

Quantitative data is collected. It is taken from Agency for statistic of BiH from period of 2007 to 2012. Data is consiting of export and total unemployment. The exports and unemployment are matched on monthly basis. For analyzing is used SPSS. In which is analyzed descriptive statistics and linear regression.

Descriptive statistic is metohds for summarizing data and bring underlying information. In descriptive statistics analyze is calculated minimum, maximum, mean and standard deviation. In my calculation is used export, import and unemployment. Pervaiz, Zainab and Sajjad (2011) did analyses in which they calculated unemployment and its effect on juveniless. They calculated mean and standard deviation. They calculated descriptive statistics of employment andunemployment. Results get conclusion that bigger unemployment brings bigger problems.[66]Azeng and Yogo (2012) in their analysis calultated mean, maximum and minimum on 85 observations in invetigation of youth unemployment.[67]

Linear Regression analysis is statistical test in which are calculates relationship among variables. In this research is used multiple linear regression which has one dependent variable and more than one independent variable. Dependent variable will be unemployment and inependent variable will be external trade,import, trade deficit, minimum wages, net salaries, GDP, inflation rate and industrial production growth.

Independent variable are taken by past research studies. Galdeano and Turunen (2005) analyzed empirically wage rigidity to local unemployment. They used data from euro zone and European

[64]Kaminski, B., Ng, F., 2010. Bosnia and Herzegovina's surprising export performance : back to the past in a new veil but will It last ? (Policy Research Working Paper Series No. 5187). The World Bank.

[65]Grahovac, D., 2010. Position of BiH on International Market. Proceedings of the University of East Sarajevo.

[66]Pervaiz, H., Zainab, S., Sajjad, M., 2011. Relationship of unemployment with social unrest and psychological distress: An empirical study for juvenile. African Journal of Business Management 6(7), 2557-2564.

[67]Azeng, T.F., Yogo, U.T, 2012. Youth unemployment and political instability in developing countries. Faculty of Economics and Management (FASEG) The University of Yaounde II.

countries. Results showed that in zone where low wages are more unemployed people there are.[68] Fang and Silos (2012) analyzed changes of wages and its effects on unemployment. They used data from the Survey of Income and Program Participation (SIPP). Results showed that wages are effecting unemployment.[69]GDP is important based on research Dumitrescu, Dedu and Enciu (2009) researched how unemployment and GDP effected. They used data for Roamania from 2000 to 2008. By results rising of 1% of unemployment it will reduce GDP for 1% percent.[70]Bowdler and Nunziata (2007) analyzed effects of inflation on unemployment. They did analyze on 20 countries with data panel. Result showed if labor market coordination is high then inflation effect unemployment.[71] Lundbort and Sacklen (2006) did analyze of low inflation and its effect on unemployment. They used ADP model to Swedish data and results showed that increasing in inflation will get long run unemployment down from 2% to 4%.[72] Schubert (2011) analyzed total productivity and its effect of unemployment, results shows that productivity has response to unemployment.[73]Tiwari (2012) did analyzis in whih he investigated efect of trade deficit and does expor influence import and inversely. Author use data from ASEAN-five countires. By results trade deficit is not harming countires that have economic stability but which do not have economic stability then trade deficit is not good for its economy.[74]

[68]Galdeano, A.S., Turunen, J., 2005. Real wages and local unemployment in the Euro area.Working paper series No. 471.

[69] Fang, L., Silos, P., 2012. Wages and Unemployment across Business Cycles: A High-Frequency Investigation.Working Paper 2012-16.

[70]DumitrescuBogdan Andrei, V.D., 2009. The correlation between unemployment and real GDP growth.A study case on Romania. Annals of the University of Oradea : Economic Science.

[71]Bowdler, C., Nunziata, L., 2007. Adjusment and Labour Market Strucutres: Evidence from a Multi-Country Study. The Scandinavian Journal of Economics 109(3), 619-642.

[72]Lundborg, P., Sacklen, H., 2006. Low-Inflation Targetig and Lon-Run Unemployment. The Scandinavian Journal of Economics, 108(3), 397-418.

[73] Schubert, S.F., 2011. The effects of total factor productivity and export shocks on a small open economy with unemployment. Journal of Economic Dynamics and Control 35(9), 1514–1530.

[74]Tiwari, A.K., 2012. Are trade deficits sustainable? Evidence from the ASEAN-five. International Journal of Social Economics.

Empirical Analysis

In descriptive statistics are calculated minimum, maximum, mean and standard deviation from 2007 to 2012 on monthly basis.

TABLE 4.1 Descriptive statistics for unemployment, export and import

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Unemployment	72	477,609	550,255	517.835,65	19144,89
Export	72	385.741,00	741.739,00	574.380,72	947.36,11
Import	72	722.056,00	1.543.366,00	1.204.652,44	180.305,60

Note: Export and Import are in KM.

By result smallest number of unemployed was 2008th in October, there were 477.609 unemployed persons. Largest number of unemployed persons 2012th in December and there were 550.255 persons unemployed. Average number of unemployed persons from 2007 to 2012 was 517.836 people.By this results BiH smallest export was 2009th in January and it was exported 385.741 in KMs. BiH largest export was 741.739 KMs and this happened in June of 2012th. Average export of BiH in period from 2007 to 2012 was about 574.380,72 KM.Import in BiH was smallest 2010th in Januray and it was imported 722.056 KMs. Most imported was in October of 2008th, it was imported 1.543.366 in KMs. In period 2007 to 2012 average import was 1.204.652,44 KM.

Table 4.2 Regression analysis results

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	200336,065	37897,885		5,286	,000
Export	,060	,028	,296	2,151	,035
Import	-,019	,024	-,176	-,782	,437
Net Salaries	-244,169	46,761	-,814	-5,222	,000
GDP	,000	,000	1,446	9,367	,000
Minimal wages	27,333	8,118	,208	3,367	,001
Trade deficit	-,007	,024	-,049	-,287	,775
Inflation	-840375,181	63828,362	-,812	-13,166	,000
Industrial production growth	748098,065	127889,601	,700	5,850	,000

Note: R^2 = ,901

Significant at 5% siginficance level.

From table 4.2 results it can be conculded that some of determinants has imapct on unemployment. All data accuaracy in regression model is 0,901, significance level of analysis is 0,05%. I can accept next determinants that effect unemployment: export, net salaries, GDP, minimal wages, inflation and industrial production growth. Export coefficints in 0,296 and it postivly effects unemployment with significant of 0,035. Net salaries coefficient is -0.814 and has negative effect on unemployment on significant of 0,000. Also siginificatn 0,000 has GDP with coefficients of 1,446 and postively effects unemployment, inflation with coefficient -0,812 and has negative effect on unemployment, industrial production growth positvely effect unemployment with coefficients 0,700. And minimal wages are positively effect unemployment with siginificant of 0,001.

Conclusion

The objective of this paper was to investigate external trade policy of BiH and its effect on unemployment in period from 2007 to 2012 on monthly basis. Calculations in this thesis are done by SPSS. In SPSS are made two analysis: descriptive statistics and regression anlyses.

In descriptive statistics analysis is calculated unemployment, export and import. Result showed that BiH unemployment is to high. Smallest nmber of unemployed was 477.609 person while laregest unemployment was 550.255 persons and average number of unemployed in period from 2007 to 2012 was 517.836 persons. Results for export and import showed that BiH much more import than export. Smallest export was 385.741 KM, largest export was 741.739 KM and average export was 574.380,72KM. Import was much bigger, the smallest import was 722.056 KM,largest import was 1.543.366 KM, while average import in period from 2007 to 2012 was 1.204.652,44 KM.

Result in regression analysis showed that export, net salaries, minimum wages, GDP, inflation and industrial production growth are significant on 0,05% and they are effecting unemployment, while import and trade deficit are not.

These study provides information which can help goverement, CEO and ordinary people of BiH to reduce unemployment. BiH goverment has to invest in its economic capabilities and try to open new places for work, which will get to to higher industrial gorwth which would lead to better GDP, higher export and bettet net salaries and minimum wages.

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Capital Market in Bosnia and Herzegovina: Unused Potential as Alternative Source of Financing

Tarik Kurbegović

Abstract

One of the most important factors of conducting business successfully and also in achieving the interests of the owner of entity is adequate structuring of source of financing of company or institution. Debt as a source of financing has its advantages in terms of potential of increasing of wealth for the owner of capital.
On the other side, debt alone as source of finance can be realized on a several ways, where plenty of factors influence that choice.
In the past few years in BiH the possibility of finance big infrastructural projects through emission of debt securities has been often mentioned. Until now neither of these projects have been financed in this way.

About this problematic can be spoken from many aspects such as: strategic decisions, limits concerning budget deficit, technical conductions, efficient managing of public debt and so further.

These are the facts that we want to consider when we speak about capital market as alternative source of financing trying to reach the advantages and disadvantages of emission of debt securities including the possibilities, techniques and benefits of financing of infrastructural projects through bonds.
In addition, in financing and implementing the infrastructural projects it is important to get introduced to a number of financing modalities of the possible "mixed financing" i.e. the partnership between the private and the public sector in project funding.

Keywords: capital market, debt securities, bonds, alternative financing, municipal bonds

A short history of b&h capital market

The foundations of the capital market in the Federation of Bosnia and Herzegovina were laid down with the adoption of the Law on Securities in 1998, the Law on Business Companies from 1999 and the laws establishing the fundamental capital market institutions – The Securities Commission of the Federation of Bosnia and Herzegovina and the Registry of Securities of the Federation of Bosnia and Herzegovina. The launch of the Sarajevo Stock Exchange in 2002 marked a milestone in the development of the capital market. On September 13, the Sarajevo Stock Exchange (SASE) was founded in accordance with the Law on Securities as a joint stock company by eight brokerage houses with the share capital of 300,000 KM. Following the adoption of the SASE Statute and the Rules, meeting of all the technical and personnel preconditions and completing extensive preparations, the first trading of shares was held on April 14, 2002 at the Sarajevo Stock Exchange.

The capital market development in the Federation of Bosnia and Herzegovina was linked closely with the process of (mass) privatization. The privatization receivables ("the certificates") which were issued to all adults in the Federation of BiH were mostly invested into the Privatization Investment Funds (PIF) and companies offering state capital. Poor awareness of the certificate owners and later share owners on the rights and obligations regarding their ownership in the funds and privatized companies lead to the fact that initial trading by these issuers on the Sarajevo Stock Exchange was mostly conducted by discount rates.

The total turnover in SASE's first year equalled to 41.6 million KM which was the lowest annual turnover in the Company's 10-year history. The market values of the listed joint stock companies at the end of 2002 (market capitalization) amounted to 321 million KM.

Table[75] 1.: overview of turnover and the market capitalization in the last ten years

Year	Turnover (KM)	Market capitalization on December 31
2002	41.678.465,00 KM	321.253.156,34 KM
2003	118.888.794,00 KM	780.246.167,55 KM
2004	201.137.333,00 KM	3.751.568.969,67 KM
2005	555.353.931,00 KM	6.694.365.072,29 KM
2006	654.717.252,00 KM	11.404.786.537,71 KM
2007	1.274.340.113,98 KM	15.518.257.216,11 KM

[75] www.sase.ba

2008	477.076.375,47 KM	7.808.681.905,37 KM
2009	219.048.701,00 KM	7.158.678.913,80 KM
2010	108.554.379,41 KM	7.210.603.026,80 KM
2011	244.787.112,11 KM	4.371.013.728,43 KM
2012	373.577.487,70 KM	4.504.560.828,97 KM

The initial trading on the Stock Exchange was in the auction trading format with one auction per day. The number of auctions later increased which lead to the introduction of the Multi-Fixing Trading Schedule (MFTS) in 2004 intended for stocks with higher solvency.

The SASE turnover and market capitalization were constantly increasing until 2007 when the annual turnover for the year amounted to 1.274 billion KM and the total company market value equalling to 15.5 billion KM.

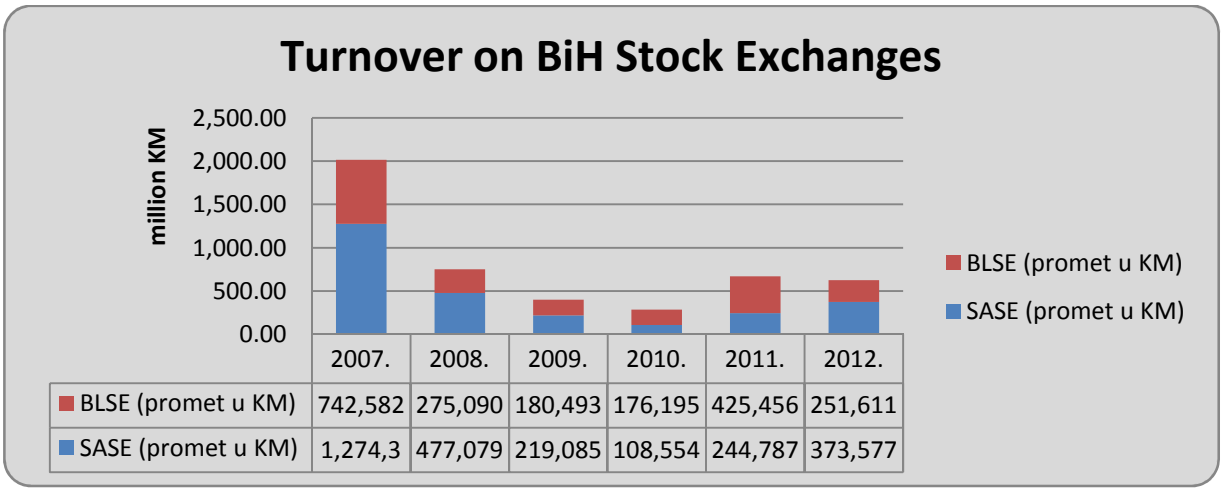
As a consequence of the global financial and economic crisis and its notable effect on the biggest investors (Slovenia and Croatia) on the FBiH capital market, the turnover in 2008 experienced a sudden plunge. The trend of turnover and market capitalization pull-down continued until 2010 which was followed by two years of turnover surge.

In the first six years of SASE, the primary market material was shares of issuers from the privatization process. After most of the companies of interest experienced ownership consolidation and considering the fact that there was a standstill in the privatization process the share of equities in the total turnover was reduced.
Despite the fact that in August 2007, a very successful sale of state-owned capital in "Interšped plc Sarajevo" was held, the political turmoil did not allow for the process to continue. Instead of equity instruments, the attention of the market from 2009 was drawn by the debt securities. This related to the bonds of the Federation of Bosnia and Herzegovina issued on the basis of internal debt (old foreign currency savings and war receivables). However, poor awareness of the bond owners on the possibility of their sale on the secondary market and a relatively long maturity period did not lead to the use of the securities' full potential on the market.

A big change on the local capital market occurred in 2011 when the Sarajevo Stock Exchange organized for the first time the primary market auction of treasury bills in FBiH. Perceiving the advantages of borrowing from the local market through the Sarajevo Stock Exchange, the FBiH Government had multiple entries on the local market and thus fulfilled all its requirements for short-term and long-term financing.

The development of the capital market in the other BiH entity followed the trends in the Federation of BiH. Although the Banja Luka Stock Exchange was established somewhat earlier than SASE, until 2010 the turnover ratio of the two BiH Stock Exchanges was 2/3 to 1/3 in favour of the Sarajevo Stock Exchange. However, in 2010 and 2011 due to a higher demand of the RS to finance its budget deficit and the large number of municipal bond issuing, the ratio was turned in favour of the Banja Luka Stock Exchange.

Table[76] 2.: Comparison of trading volume on BH stock exchanges



	2007.	2008.	2009.	2010.	2011.	2012.
BLSE (promet u KM)	742,582	275,090	180,493	176,195	425,456	251,611
SASE (promet u KM)	1,274,3	477,079	219,085	108,554	244,787	373,577

Ways of financing growth and development

One of the most important factors of conducting business successfully and also in achieving the interests of the owner of entity is adequate structuring of source of financing of company or institution. Debt as a source of financing has its advantages in terms of potential of increasing of wealth for the owner of capital. The thing that we are speaking about is optimizing relationships of debt to ownership capital.

On the other side, debt alone as source of finance can be realized on a several ways, where plenty of factors influence that choice. We mean here on financing through bank credits versus financing by emission of debt securities. The sizes of a company or an institution together with the financial system are most important factors that determine not only the way of financing through emission of debt securities but also considering it as an option or a possibility.

In the past few years in BiH the possibility of financing big infrastructural projects through emission of debt securities has been often mentioned. Until now neither of these projects have been financed this way.

[76] www.sase.ba

About this problem can be spoken from many aspects such as: strategic decisions, limits concerning budget deficit, technical conductions, efficient managing of public debt and so further.

If it is about finance of corridor 5C or about financing infrastructural projects on the local level, bank loans determine the way of financing in Bosnia. In most case these loans are offered by international finance institutions or some countries. On the other side by emission of bonds issued either by state/entity or more concrete public company „Autoceste FBiH", the state itself would become investor. Thus the state, entity, municipality and citizens instead of trading with bonds that are used with aim to cover budget deficits can be used for infrastructural projects and development.

These are the facts that we want to consider when we speak about capital market as alternative source of financing trying to reach what are the advantages and disadvantages of emission of debt securities, what are the possibilities, techniques and benefits of financing of infrastructural projects through bonds.

Debt as an alternative source of financing

When we talk about debt or financing through debt and its reflection on the economy, there is no single stance on the type of debt although there are the Maastricht Criteria which state that it should not exceed 60% of the GDP and that the deficit should not exceed 3% of the GDP.

The experts believe that the best way of debt management is to compare it with the conditions in the countries in the region or beyond. If we take a look at the world map and the state of public debt in each individual country, we will perceive that the most developed countries are the ones most indebted. Doesn't that lead us to a conclusion that it is justified to go into a debt? On the other hand, countries which are also considered as developed but are not indebted are either countries rich with natural resources such oil or gas or the ones whose hyper-production and export orientation generates a surplus which does not require them to borrow such as China for example. Nevertheless, if we look at the situation in certain European countries whose debt exceeds 100% of their GDP we will see that they are facing bankruptcy while countries such as Belgium whose debt amounts to 97% of their GDP has no problems with solvency and development.[77]

What is important with debt? The **first** thing is that the rate of growth of GDP must always be higher than the rate of growth of public debt preventing the country to reach insolvency and thus fail to fulfil its obligations. The **second** thing is to establish the reasons for borrowing bas that will determine whether the current or the future generations are to repay the debt: if the reason is to fill

[77] www.oecd.org/belgium/

budget holes, then the burden should be borne by the current generation (taxes) but if the borrowing is intended for infrastructural investments for the benefit of the future generations then there are grounds of transferring the debt onto the future generations (borrowings). The **third** issue is whether to borrow from the local or foreign market as the effects on the local economy are significantly different. The main arguments for local borrowing: development of the local financial market and transparent trading and less exposure to external risks (changes in interest and exchange rates). All this leads to the fact that the most important issues regarding debt are not just parameters but proper debt management - minimizing the negative and maximizing the positive effects.

The expected changes in interest rates are forecasted for the issuing of securities. If the interest rates are expected to rise, long-term bonds will be issued but if they are expected to drop the short-term bonds are to be issued.

In the borrowing or in the process of creating debt, it is important to evaluate whether the local economy can bear the burden of debt repayment in the long-term. In order for the debt to have minimum negative and maximum positive effects it is important to harmonize the fiscal policy with the monetary policy. Moreover, the funds generated through borrowing should be invested into developmental projects otherwise the public debt policy is a risk factor which can endanger the future economic growth.

The alternative sources of financing may be viewed as a competition to the banking sector. Namely, on the developed markets the banking sector is just one of the players in the overall financial system struggling to earn its place in the system whereas in our context the banking sector almost holds a monopoly. It goes without saying that the competition gives rise to better services provided by the players in the system and the capital market is the alternative source of financing for all target groups of citizens, municipalities, cantons, entities, states and companies. How?

For example, the citizens can direct their savings in the bank, held at an interest rate of 2% to 3%, towards buying of bonds which will bring them a return of 12% to 13% on an annual level through an interest rate incurred on the bond plus the discount as they are buying before the maturity. That means that someone is selling something for 92% 10 months before the maturity when he would get 100%.

The municipalities, cantons and entities may issue bonds and thus incur funds from the investors (citizens, banks, companies) to finance their projects and obtain access to financing for a much cheaper price than borrowing from banks. This means that the characteristics of bonds as the capital market instrument cannot be disputed, it is only the means of investing such funds which may be disputed for example if the state is using the bonds to cover for the budget losses in order to pay off salaries to the state administration instead of investing them into financing of projects which would generate return of investment. The fact that the banks are investing the citizens' savings into the

buying of bonds goes to prove the fact that the bonds are a safe investment. The poor awareness of citizens and the absence of capital market culture just add to the case.

Some people say that bonds are not safe enough while banks are – this is not true because if the banks run into trouble their mother banks will not be liable for the sisters on our market as the principle of solidarity is not valid in this case. Some banks are basic companies with limited liability carrying the name of their mother company while the state can always undertake fiscal measures such as taxes and make up for the money needed to settle the debt.

Furthermore, in addition to bonds the companies also have the possibility of "going public" i.e. the IPO which means that if they need new capital to expand their prospective business they can transform themselves into a joint stock company and list their shares on the primary market and thus obtain the funds instead of borrowing from credit funds. Many people in BiH see this as a loss in the ownership structure which is a completely wrong approach.

Not going beyond the borders of the former Yugoslavia, Stock Exchanges in the region have developed as a consequence of the economic transition i.e. the transformation of state capital into both state and private capital. As a result, the offers of our Stock Exchanges usually included equity securities or simply shares and stocks which were later followed by the debt securities notably bonds and treasury bills.

Equity versus debt

To explain briefly, shares are equity securities which give the shareholder the right to make decisions at an assembly and to participate in the distribution of dividends while the bonds and treasury bills are debt securities which oblige the buyer to pay the bidder the annual interest in addition to the principal upon maturity during the validity of the bond. The difference between the bonds and the treasury bills is that bonds are long-term debt securities while T-bills are short-term securities with a maturity of one year.

In principle, the bonds incur a regular income, less return with a low level of risk and volatility (although there are exceptions). Everyone can achieve financial profit if bonds are part of their financial portfolio. Bonds are debt securities issued by the state (state bonds), local authorities (for example: municipal bonds) and companies (corporate bonds) in order to finance different investments at a lower cost in comparison to a classic credit. As opposed to shares, the bonds do not give the owner the right to participate in decision-making and profit but they do entitle him to return of the invested principal increased by the contracted interest rate for the contracted period of time. The nominal value of the bond indicates the amount of money the bond owner will get at the time of its maturity. The nominal (coupon) interest rate on bonds is the rate used for calculating and paying interest in line with the schedule stated in the bond. The maturity date is the date when

the bond issuer must pay the principal to the bond owners. In view of the fact that the bonds are a long-term financing instrument, the maturity period is usually between 2 to 30 years after the bond issuing. Most often the short-term bonds have a maturity period less than a year, mid-term bonds have maturity period between two to ten years while long-term bonds usually last for more than 10 years. As for the bond issuers, the most common ones are state bonds, municipal bonds issued by the local authority or corporate bonds issued by large companies and corporations.

Bonds are usually considered to be a less risky investment than stocks. When you buy a bond at the time of their issue and you hold on to it until its maturity you will incur regular income (interest, return) and the whole investment amount upon maturity. The risk that you undertake (together with the inflation risk) might be in the fact that the issuer will not be able to settle all its obligations, pay the interest and pay your invested principal. This is known as the credit risk. In addition there is also the market risk i.e. the risk of the bond price change. There is a constant fluctuation in the value of bonds and if you wish to sell your bond before its maturity you might get less than what you have paid for. In any case, bonds are a good option for investment diversification.[78]

Bonds are a good form of investment for investors with low risk preferences and for reducing the overall risk of portfolio diversification. Namely, in contrast to the stocks, the bonds incur fixed return to their owners – the interest. Moreover, in the business result distribution hierarchy and its salvage value bonds hold a superior position over the share holders meaning that the companies are legally bound to pay off the outstanding debts stemming from bonds prior to any pay off to the owners of the company that has issued them. The state bonds are highly secure since the pay off of their receivables is warranted by the state.

In making their decisions on using the capital market as the source of financing for the development and/or expansion of their business activities, the legal entities have to decide on the type of security which they wish to issue - the equity or the debt securities. In the case of public sector- the state, cantons, city and municipality – this dilemma does not exist as they can issue only debt securities. With companies, the issue is whether they wish to enter into contractual relations (with the issuing of bonds) or they wish to expand their ownership structure (with the issuing of shares).

The issuing of shares changes more or less significantly the ownership structure of the company depending on the number of issued securities. That leads to changes in company management and profit distribution. The most notable transition is from the closed (equity) joint stock company into a (public) open joint stock company as this is usually the first time the ownership is separated from the management functions. This is the reason why the companies in BiH rarely opt for this move. On the other hand, this move enables the company to ensure long-term capital for their development as the issued shares do not have dates of maturity. Moreover, the dividend as one of

[78] Silvije Orsag, Vrijednosni papiri, Investicije i instrumenti financiranja, Revicon, Sarajevo, 2011.

the integral parts of the overall return to investor is not mandatory and is conditioned by the positive financial results and adequate assembly decision.[79]

With the issuing of bonds, the company borrows from the investor. They are entitled to period interest payoff (quarterly, semi-annually or annually) but do not have the right to manage the company nor participate in profit distribution. One advantage for the company is that there is no change in the ownership structure and it creates a possibility for a later buy off of the bonds from the investor provided that it stands in accordance with the decision on bond issuing.

From the investor's point of view, the bonds as debt securities are ranked into a category of safe securities in comparison to the stocks. The primary reason for this is that the bond owners have priority in payoff in case of company's bankruptcy while the shareholders are the last in line for the pay.

Financing the development of local municipalities

The municipal bonds i.e. the bonds issued by the local authority are a globally popular means of financing the development of municipalities and other local self-authority units. The reason for the instrument's popularity lies in the advantages that it offers to both the municipality and the investors. The flowing sector will present the advantages for the municipality:

a) Lower financing costs

In addition to the presence of the so-called "humanitarian loans", the loans from commercial banks are one of the most frequently used mechanisms of financing municipal development. One of the reasons for this is primarily due to easy accessibility of such loans (if we are talking about a financially sound municipality) but also due to poor awareness of the municipal administration regarding alternative sources of financing notably through the capital market. In order to understand the advantage of lower financing bonds with the issuing of municipal bonds, it is important to draw your attention to the difference between the active and passive interest rates in the banking system. The passive interest rates are those incurred by the citizens or companies when they deposit or term deposit their assets in the bank while the passive interest rates are paid when the citizen or the company takes out a loan to settle its necessities. If we analyse the situation in Bosnia and Herzegovina in 2012, the difference between the active and the passive interest rates or the so-called interest spread was not less than 4%. Why is this important in our elaboration of municipal bonds? It is because this is the so-called "interest area" from where the municipalities (or

[79] Stanley B. Block and Geoffrey A. Hirt, Foundation of Financial Management, fifth edition, Richard D. Irwin, Inc., Homewood, Illinois, 1989.

other legal entities) may opt to borrow achieving significant savings on one side and motivating the population enough to buy the municipal bonds on the other.

b) More flexible borrowing terms

Looking from the aspect of flexibility and adaptability to the needs of the municipalities for the financing of infrastructural projects, the bank loans are very limited. The banks are not very willing to give long-term loans and their loans are very often placed under a floating interest rate. In bond issuing, the municipality has much more flexibility in terms of maturity which enables much longer maturity dates but also enables more precise definition of modalities and loan repayment schedule. If we add a standard fixed interest rate to this there are enough reasons to seriously start thinking about bond issuing instead of taking up loans. Of course, in setting out the terms and conditions, the municipality needs to take into account that the issuing terms are attractive enough for the investors to buy these securities.

c) Fostering the municipal administration

With bond issuing, the municipality needs to be more transparent and open in terms of their financial operations. The investors are unwilling to invest into a "black box" and the municipal administration must define clearly the channels and the action plan for their incurred investments. The more detailed and credible the action plan, the less possibility for undedicated asset spending and the bond issuing will be more successful.

Investing into municipal bonds also has advantages for the investors. To name the few:

a) Higher return than with fixed-deposits

The municipal bonds often incur higher interest than fixed deposits and much higher returns then in case of a vista deposits. Moreover, investing into municipal (and other public sector bonds) has a very positive tax treatment. For example, very often the amount of money invested into such financial instruments is deduced from the investor's tax basis which, together with the higher interest rates in general makes the municipal bonds instruments with a relatively high rate of return in comparison with other (debt) instruments.

b) Safety

As with other public sector securities, the municipal bonds are also considered to be safe securities. The logic behind this claim is that if there is a problem in the repayment of the borrowed amount, the municipality may always introduce the final measure of local tax increase or introduce para-fiscal levies although such behaviour surely would not have a positive effect on the investors.

c) Participation of local population in municipal development

A fact which we cannot forget is the effect the municipal bonds have on "local patriotism." in view of the fact that the municipalities are places where people live it is in everyone's interest for the municipality to prosper and develop. This can be an additional motivational factor for the local businessmen or wealthier citizens in the municipality to buy this type of financial instrument. However, we must be aware that today's sole reliance on patriotism will not ensure bond issuing success.

The first municipal bonds were issued in 2008 in Bosnia and Herzegovina, accidentally or not in Municipality of Laktaši. The issued bonds valued at 10 million KM issued at a period of 6 years and at an interest rate of 5.75% were issued to build a sports centre. In Republika Srpska, several dozen municipalities have issued bonds and thus generated significant funds. The fact that the Investment-Development Bank of Republika Srpska ensured the success of most of the issuing and that this served as a political instrument of awarding credits to politically eligible municipalities does not diminish the importance of the mere issuing for the development of their capital market. In the Federation of BiH, two municipalities have issued their bonds. The pioneer step was taken by Municipality Tešanj with the issuing of bonds valued at 500.000 KM for a period of 3 years and at an interest rate of 6%. Tešanj was soon followed by Cazin which issued bonds valued at 1 million Km, at an interest rate of 6% for a period of 5 years.

Financing of infrastructural projects

The infrastructural projects are among other things a driver of development of the local community and the state/entity in general. In addition to being an incentive for economic growth, such (successful) projects raise the living standard of the whole population, provide support to business activities and finally increase the level of competition of the local community/region/state where the project is being implemented.

Ina addition to all the other factors in involved in the implementation of infrastructural projects, a very important segment is the model and means of project financing. In view of that there is a whole range of modalities and approaches to financing. In the previous section we saw some basic characteristics and advantages of project financing by means of bond issuing (in public and private sectors) and in the following section we will give a brief overview of the alternative models for financing infrastructural projects and a longer review of debt financing via bonds and financing through a mixed partnership of the public and private sector.

Financing of infrastructural projects can be categorized in several ways depending on the criteria of categorization. These are:[80]

[80] Zoran Aralica, Domagoj Račić,. Jelena Šišinački, Privredna kretanja i ekonomska politika 112 / 2007. Ekonomski institut, Zagreb.

- local and foreign financing depending on the asset source of origin, then
- public, private, mixed types of models/categories depending on the investor's sector of origin (public/private);, and
- personal or external financing (from the current budget revenues) depending on the techniques and instruments of financing.

Within the scope of the third category, the external financing may come from different sources and be implemented with different techniques and instruments. Thus we can differentiate the following types of financings:

- donation that include for example EU funds, local funds and local development banks and agencies (state, entity…), foreign development banks and other institutions, foreign development agencies and similar institutions…,
- DEBT FINANSING where we usually have the commercial bank loans from local development banks and agencies, foreign development banks (EBRD, WB, EIB...), borrowing through BOND issuing
- financing by means of "own capital" (financing which includes private equity, the so-called public-private-partnership) where we can talk about concessions, joint ventures and the so-called project financing.

In this paper we will not be able to give a more detailed overview of the aforementioned aspects, models and categories of financing but we will rather focus on the debt financing through bond issuing and financing which involves the profit/private sector or the public-private partnership. Recently, the public sector has been turning to the private sector more often than ever to support it in their development and provision of infrastructural services. The public administration which is faced with the ever growing service demand, significant institutional and operational deficiencies and limited financial assets, has recognized the private sector as the valuable source of new technologies, management expertise and source of investment capital. The global experiences have shown that if they are designed properly, the system of the public-private partnership can largely influence boost in quality, availability and cost efficiency of local infrastructural services.

Financing through bond issuing as a realistic alternative to investment loans and the whole spectrum of possible financing sources, certainly has its advantages for both the lender and the borrower (which we mentioned in the previous sections of this paper) and leaves a positive effect on the financial market as a whole. However, the reality has shown that this system of financing was chosen by a relatively small number of municipalities and other levels of authority in the recent period. We can look for the reasons to this in the low level of awareness on the advantages of such

forms of financing as it is (nevertheless) easier and (faster) to get access to the bank loan. Moreover we can add the insufficient engagement of the local and other levels of authority in choosing projects and seeking (combining) different sources of financing.

Perhaps this situation is favourable at the moment as it leaves the local authorities (and other levels) with a lot of space to borrow, however such borrowing needs to be accompanies with a strategic approach, coordination, a clear plan and aims, good budget planning and discipline.

In analysing the characteristics of bonds for financing infrastructural projects we can make a clear distinction between the state- financed infrastructural projects or projects financed on the local level.[81]

In the first case, the state can be easily indebted by using various instruments and arrangements with a standard coupon bonds (bonds with one-off depreciation) being the principal option. In this case, such bonds have significant advantages since the only thing financed until their date of maturity is the interest – this is a very important characteristic at the moment. Moreover, we need to take into consideration that it is important to plan and manage the public debt carefully. We can say that it is realistic to expect that due to an upward economic cycle, at the time of maturity the budget flow will be sufficient to settle the principal without additional borrowing which leads us to conclude that the public debt in this context may significantly be decreased in the upcoming period with the issuing of bonds at the moment. This gives us the right to claim that the current economic situation in BiH is favourable for borrowings for the financing of infrastructural projects – namely the most advantageous being the bond issuing.[82]

We will mention here that (apart from all the other classifications and characteristics) the bonds issued by the public authorities may be general obligation bonds and revenue bonds (bonds of special purpose). The general obligation bonds are characterised by the general obligation of the issuer to repay the debt and the principal and interest may be settled from any authority source of revenue.

The revenue bonds are issued with the purpose in generating revenue from specific projects. The principal and the interest are paid from the revenue generated by the facility built from the previous borrowing. For example, pay toll collection may pay for the obligations incurred with the issued bonds.

[81] Silvije Orsag, Zbornik radova , Revicon, Sarajevo, 2012.

[82] (Mr. sc. Hrvoje Šimović, Municipalne obveznicei njihova primjena u Hrvatskoj, FIP 3/2005)

In principal, the state doe not issue revenue bonds unless it represents a guarantor of the issuing for the local community or a state-owned company and different state agencies.

The direct financing of state infrastructural projects should primarily take place with the issuing of general obligation bonds. This is also possible in case the state is using state-owned companies or legal entities established specifically for these purposes as project holders intended for infrastructural project implementation and management. These companies are engaged in one phase or throughout the project, either independently or in partnership with the private sector (Special Purpose Vehicle). here we can talk additionally about the public-private partnership where we can involve the private sector in the ownership structure of such companies and the combinations in that context (the contractual relations, the modalities of financing) are vast and require special attention as the adequate model may generate significant positive results both in the financial terms and other aspects of the infrastructural project.[83]

We have to understand that the possible combinations of the private and public sector partnership are vast in terms of financing, implementation, ownership, management, level of risk and its distribution. In the following section we will give a brief overview of these models. All models of the PPP may be grouped into several basic forms of implementing the public-private partnership:

- Management contracts and service contracts by which the private sector undertakes to provide services on behalf of the public sector.
- Lease agreements by which the public sector offers the private sector the use of its property. The private partner leases/rents the property and often develops it in both technological and functional context.
- Joint venture agreements by which the public and the private sector establish a joint business entity in order to implement a project where the amount and means of investing and sharing risk is defined by contract.
- Build-Operate-Transfer – concession agreements by which the public sector transfer part of its rights and tasks for conducting the relevant business activity onto the private sector partner for a specific period of time.
- Private finance initiative PFI– a form of PPP belonging to the Design-Build-Finance-Operate contract type. The other forms of partnership include BOOT (Build-Own-Operate-Transfer), DBFOOT (Design-Build-Finance-Own-Operate-Transfer) and other. As part of

[83] Dr. sc. Hrvoje Kačer, dr. sc. Dejan Kružić, Dr. sc. Ante Perković: Javno - privatno partnerstvo: ...Zbornik radova Pravnog fakulteta u Splitu, god. 45, 3/2008

the PFI, the public sector leases or buys a specific type of public assets or public services rendered by the private sector partner.

- BOO (Build-Own-Operate) and BBO (Buy-Build-Operate) contracts- by which the private partner is buying, building, maintaining and operating the property in its sole ownership and by managing it, the private sector partner bears all the risks but also enjoys all the benefits of providing the contracted public service.[84]

In the following section we will present the different forms which appeared as models of PPP in practice (especially after the 1980's):

- FO- Finance Only: The private sector, notably banks and funds directly finance the building of public infrastructure.
- DBB: Design-Bid-Build: The public sector partner sets out project terms of reference, ensures financing and project design while the private bidder is responsible for the building. The public sector partner provides the service, maintains the facility and owns the constructed building.
- DBM: Design-Build-Maintain: The private sector designs, builds and maintains the infrastructure, undertakes cost, quality and maintenance risks of the building.
- OM: Operate-Maintain: By means of contract, the private sector partner provides the service using public assets or public property but the ownership is still in the hands of the public sector.
- DBO: Design-Build-Operate: The private sector designs and builds the public asset while the financing costs are borne by the public sector. Upon the building completion, the private partner take up a long-term lease over the facilities and uses them for service provision.
- BOT: Build-Operate-Transfer: The private sector builds the public asset and uses it for service provision. The public partner as the service provider (controlled by the public sector) collects the fees for the provided services from the public sector and/or the end users. After the expiry of the long-term lease, the public asset is returned to the public sector partner.
- DBFO: Design-Build-Finance-Operate: The private sector designs, builds and finances the implementation of the public asset and takes up a long-term lease. It manages the service provision and uses the public asset for a contracted number of years.
- (BOOT: Build-Own-Operate-Transfer): The private sector builds the public asset upon the design of the public sector, owns it for a contracted period of time and uses it for service provision. The public partner as the service provider (controlled by the public sector)

[84] Guidelines for Successful Public-Private Partnership. Brussels: European Commission, Directorate-General, Regional Policy. 2003

collects the fees for the provided services from the public sector and/or the end users. After the expiry of the long-term lease, the public asset is returned to the public sector partner without a fee.

- LDO: Lease-Develop-Operate: The private partner takes the public asset up for a lease, develops it in technical and functional terms and manages its use.
- BLOT: Build-Lease-Operate-Transfer: The private partner builds the public asset and takes it up for a lease. The ownership over the asset remains with the public sector while the private sector provides services using the leased public asset. With the expiry of the contracted period, the ownership over the public asset is returned to the public partner.
- BUYOOT: Buy-Own-Operate-Transfer): The private sector buys the public asset, uses it for a contracted number of years and provides services. With the expiry of the contracted period, the ownership over the public asset is returned to the public partner without a fee.
- DBFOOT: Design Build-Finance-Own-Operate-Transfer): The private sector designs, builds and finances the public project, manages the service provision and operates the public asset which is in his ownership for a contracted number of years. With the expiry of the contracted period, the ownership over the public asset is returned to the public partner without a fee.
- BOO: Build-Own-Operate: The private sector builds and manages the public asset in its ownership without the obligation of transferring the property to the public sector. The monitoring over the private sector service provision is most often performed and regulated by the public authorities.
- BBO: Buy-Build-Operate: The private sector buys the public asset, develops and manages it, provides services to the public sector or the end users. With the expiry of the contracted period, the private sector retains the ownership rights over the public asset.[85]

Conclusion

The debt as the source of financing has potentially significant benefits (if adequately managed and implemented) both in the private and the public sector. If analysed in the wider context, the capital market should provide its participants multiple means and instruments for debt collection and implementation namely the long-term debt which is to be used for investment projects (both public and private). In the current practice, the most common debt was the banking debt from traditional credit agreements implemented without incurring securities. Such an arrangement has its

[85] Robert, J., 2001, Models for the Financing of Regional Infrastructure and Development Projects, with a Particualr Attention to the Countries of Central and Eastern Europe. Public-private Partnerships in Spatial Development Policy, European regional planning (CEMAT), br. 63. Strasbourg: Council of Europe Publishing.

advantages but also disadvantages as it does not have the option of debt implementation through the issuing of debt securities. The presence of a number of institutions representing the infrastructure of the modern capital market creates a basic precondition for the future segmentation of the capital market regarding the offer/generation of different forms of securities holding different characteristics (risks, maturity...etc) and it seems that at the moment there are realistic conditions for a more significant bond issuing on the local and other higher levels of authority in BiH.

The bonds take up their place both with private and public issuers although in the case of the private sector, this instrument is primarily reserved for the big joint stock companies. On the other hand, bond issuing as the means of financing development and infrastructural projects in municipalities, regions, entities and states represents a potentially very important segment of functioning and purpose of the capital market.

A very popular phrase in the last several decades has been the public-private partnership. There are reasons why there has been an "explosion" of this joint approach in the provision of public services/products. It is necessary to know the different models that have appeared in the current practice all with the aim of drawing on the positive experience and applying the suitable model responding to the specific project or need.

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Economic Crisis And Its Impacts On International Road Transportation Sector Between European Union And Turkey

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Abstract

In 2008, when the ratification process of the Lisbon Treaty had been continuing, the global financial crisis had been perceived as an Anglo-Saxon recession early on, however it increased the problems significantly, which EU countries were already faced. So, serious problems arised in such countries, like UK, Ireland and Spain, where the share of financial services in national incomes was sufficiently high. As a result of global crisis, loss of consumer confidence and decrease in the world trade volume forced also German economy-one of the biggest exporters of the world. The new members of EU, who realized its largest enlargement in 2004, have been affected negatively by the crisis.

The EU members, who were unprepared to crisis, under the effects of lack of final decisions about the coordination of economic and financial policies in EU agreements, could not perform well in common "struggle" against crisis. Although coordination provided by the actions of some EU member states leaders prevented the conclusion of crisis with a disaster, but this could not stop low growth rates and high unemployment.

All these negative developments deeply affected every sector of the EU economy, a logistics sector also, which has a key role to play in increasing the competitiveness of European industry in both the services and manufacturing sectors with about 7 million employments (in freight logistics).

On the other hand, an economic crisis in the EU decreased its trade volume with Turkey. The EU is the Turkey's first trade partner. But the reduction of the domestic demand in the EU naturally lowered the level of trade between them. Turkey's import rate from the EU decreased from 40,8% in 2007 to 39,3% in 2010. Also in this period Turkey's export to the EU declined

from 56,8 % to 46,3%. These developments in foreign trade decreased a volume of international road freight transportation between the EU and Turkey also. Additionally, the EU's protective policies such as permit and visa limitations narrows the trade strongly.

The purpose of this paper is to describe the main reasons of negative changes in international road transportation sector between the European Union and Turkey in the light of economic crisis and make suggestions to develop the bilateral sectoral relations on behalf of increasing trade and elimination of crisis's impacts. The Turkish Union of Chambers and Commodity Exchanges' and the International Road Transport Union's data about the quantity of permits and TIR carnets will be used for evaluation of transport volumes between the EU and Turkey.

Keywords: Enlargement, European Union, international road transportation, global economic crisis, logistics, permit, trade, Turkey.

Introduction

The economy of the European Union, which holds the 17 nations that use the Euro currency and 10 others, is a larger economic bloc than the United States or China and generates a GDP of over €12.894 trillion - USD 16.566 trillion - in 2012, making it the largest economy in the world (Eurostat, 2012). The services sector is by far the most important sector in the European Union, making up 69.4% of GDP. As a provider of 11 million jobs in the EU, the value of Europe's logistics industry is primarily seen in its €1 trillion revenue, representing 4.9% of the EU economy in terms of added value. The transport sector accounts for about 3.7% of European GDP and for around 5.1% of employment in the EU. Around three-quarters of freight in Europe is delivered by lorry, and road freight transport is one of the sub-sectors of the transport industry (Transport&Environment, 2011).

Unfortunately, 2008's economic crisis deeply affected every sector of the EU economy, a logistics sector also, which has a key role to play in increasing the competitiveness of European industry in both the services and manufacturing sectors with about 7 million employments only in freight logistics (European Commission, 2008).

On the other hand, all these negative developments in the EU decreased its trade volume with Turkey, who is Turkey's first trade partner. The reduction of the domestic demand in the EU naturally lowered the level of trade between them. Turkey's import rate from the EU decreased from 40,8% in 2007 to 39,3% in 2010. Also in this period Turkey's export to the EU declined from 56,8 % to 46,3% (Turkish Statistical Institute, 2011). These developments in foreign trade decreased a volume of international road freight transportation between the EU and Turkey also.

Additionally, the EU's protective policies such as permit and visa limitations narrows the trade strongly.

This article studies the impacts of economic crisis on international road transportation sector between Turkey and the EU in the light of trade between sides. The article then proposes a set of essential steps that need to be taken to develop the bilateral sectoral relations on behalf of increasing trade and elimination of crisis's impacts.

European Union And Economic Crisis

"A perfect storm" is one metaphor used to describe the global crisis in 2008. No other economic downturn after World War II has been as severe as 2008's recession. Although a large number of crises have occurred in recent decades around the globe, almost all of them have remained national or regional events – without a global impact. The centre of the storm was in the USA from where it moved directly to Europe and also indirectly via emerging markets. Behind this development lay a whole series of imbalances at different levels and in different spheres that interacted with developments in the way advanced capitalist economies have been operating, particularly but not exclusively in their financial sectors (European Commission, 2009). The rapid internationalisation of production, investment and financial linkages – in short 'globalisation' – without a corresponding development of supervisory and other forms of regulation at an appropriate – both global and European – level was the another feature of crisis (Albers and Jonung, 2010).

In 2008, when the ratification process of the Lisbon Treaty had been continuing, the global financial crisis had been perceived as an Anglo-Saxon recession early on, however it increased the problems significantly, which EU countries were already faced. So, serious problems arise in such countries, like UK, Ireland and Spain, where the share of financial services in national incomes was sufficiently high. As a result of global crisis, loss of consumer confidence and decrease in the world trade volume forced also German economy-one of the biggest exporters of the world. The new members of EU, who realized its largest enlargement in 2004, have been affected negatively by the crisis. Moreover, in October 2009 Greece's finance minister revealed a black hole in his country's budget.

The EU members, who were unprepared to crisis, under the effects of lack of final decisions about the coordination of economic and financial policies in EU agreements, could not perform well in common "struggle" against crisis. Although coordination provided by the actions of some EU member states leaders prevented the conclusion of crisis with a disaster, but this could not stop low growth rates and high unemployment.

The financial crisis has had a pervasive impact on the real economy of the EU. There are essential three transmission channels:

- ***via the connections within the financial system itself:*** Although initially the losses mostly originated in the United States, the write-downs of banks are estimated to be considerately larger in Europe, notably in the UK and the Euro area, than in the United States.
- ***via wealth and confidence effects on demand:*** As lending standards stiffened and households suffered declines in their wealth, in the wake of drops in asset prices (stocks and housing in particular), saving increased and demand for consumer durables (notably cars) and residential investment plummeted.
- ***via global trade:*** World trade collapsed in the final quarter of 2008 as business investment and demand for consumer durables – both strongly credit dependent and trade intensive – had plummeted (European Commission, 2009).

Following the 2008-09 global economic crisis, the EU economy saw moderate GDP growth in 2010 and 2011, but a sovereign debt crisis in the Euro zone intensified in 2011 and became the bloc's top economic and political priority. Despite EU/IMF adjustment programs in Greece, Ireland, and Portugal, and consolidation measures in many other EU member states, significant risks to growth remain, including high public debt loads, aging populations, onerous regulations, and fears of debt crisis contagion. In response, Euro-zone leaders in 2011 boosted funding levels for the temporary European Financial Stability Facility to almost $600 billion and made loan terms more favorable for crisis-hit countries, and in July 2012 brought the permanent European Stabilization Mechanism online, a year earlier than originally planned. In addition, 25 of 27 EU member states (all except the UK and Czech Republic) have indicated their intent to enact a "fiscal compact" treaty to boost long-term budgetary discipline and coordination. In September 2012 the European Central Bank committed to a bond-buying program for troubled Euro-zone member states that agree to a formal program of fiscal and structural reforms, aiming to reduce their borrowing costs and restore confidence in the Euro zone.

Trade Between Europen Union And Turkey

The EU and Turkey enjoy a deep trade relationship. Indeed, the EU ranks by far as number one in both Turkey's imports and exports, while Turkey ranks 7th in the EU's top import and 5th in export markets. The EU and Turkey are linked by a Customs Union agreement, which came in force on 31 December 1995, pursuant to the 1963 EU-Turkey Association Agreement, which aims at promoting trade and economic relations. The Customs Union is ambitious, but does not cover essential economic areas, such as agriculture (except processed agricultural products), to which bilateral trade concessions apply, services or public procurement. The Customs Union has significantly increased the volume of trade between Turkey and EU member states. Trade between the EU and Turkey in agriculture and steel products was regulated by separate preferential agreements. In 1996 a free trade area was established between Turkey and the European Union for products covered by the European Coal and Steel Community. Decision 1/98 of the Association

Council covers trade in agricultural products. In addition to providing for a common external tariff for the products covered, the Customs Union foresees that Turkey is to align to the acquis communautaire in several essential internal market areas, notably with regard to industrial standards.

Table 1. EU's Trade with Main Partners (2012)

The Major Imports Partners				The Major Exports Partners				The Major Trade Partners			
Rk	Partners	Mio Euro	%	Rk	Partners	Mio Euro	%	Rk	Partners	Mio Eeuro	%
	Extra EU27	1,791,727	100.0 %		Extra EU27	1,686,774	100.0 %		Extra EU27	3,478,501	100.0 %
1	China	289,915	16.2 %	1	USA	291,880	17.3 %	1	USA	497,658	14.3%
2	Russia	213,212	11.9 %	2	China	143,874	8.5%	2	China	433,789	12.5%
3	USA	205,778	11.5 %	3	Switzerland	133,341	7.9%	3	Russia	336,474	9.7%
4	Switzerland	104,544	5.8%	4	Russia	123,262	7.3%	4	Switzerland	237,885	6.8%
5	Norway	100,437	5.6%	**5**	**Turkey**	**75,172**	**4.5%**	5	Norway	150,258	4.3%
6	Japan	63,813	3.6%	6	Japan	55,490	3.3%	**6**	**Turkey**	**122,961**	**3.5%**
7	**Turkey**	**47,789**	**2.7%**	7	Norway	49,821	3.0%	7	Japan	119,303	3.4%
8	South Korea	37,861	2.1%	8	Brazil	39,595	2.3%	8	Brazil	76,685	2.2%
9	India	37,295	2.1%	9	India	38,468	2.3%	9	India	75,764	2.2%

10	Brazil	37,090	2.1%	10	South Korea	37,763	2.2%	10	South Korea	75,624	2.2%

Source: European Commission, 2013

Table 2. Turkey's Trade with Main Partners (2011)

The Major Imports Partners				The Major Exports Partners				The Major Trade Partners			
Rk	Partners	Mio Euro	%	Rk	Partners	Mio Euro	%	Rk	Partners	Mio Eeuro	%
	World (all countries)	344,517	100.0 %		World (all countries)	193.848	100.0 %		World (all countries)	538.365	100.0 %
1	**EU27**	**65.400**	**19.0 %**	**1**	**EU27**	**44.790**	**23.1 %**	**1**	**EU27**	**110.189**	**20.5%**
2	Russia	17.291	5.0%	2	Iraq	5.989	3.1%	2	Russia	21.601	4.0%
3	China	15.573	4.5%	3	Russia	4.310	2.2%	3	China	17.345	3.2%
4	USA	11.529	3.3%	4	USA	3.315	1.7%	4	USA	14.845	2.8%
5	Iran	8.924	2.6%	5	UAE	2.673	1.4%	5	Iran	11.510	2.1%
6	India	4.667	1.4%	6	Iran	2.586	1.3%	6	Iraq	6.051	1.1%
7	South Korea	4.533	1.3%	7	Saudi Arabia	1.983	1.0%	7	India	5.210	1.0%
8	Switzerland	3.605	1.0%	8	Egypt	1.983	1.0%	8	South Korea	4.914	0.9%
9	Ukraine	3.457	1.0%	9	China	1.772	0.9%	9	Ukraine	4.702	0.9%

10	Japan	3.062	0.9%	10	Israel	1.717	0.9%	10	Switzerland	4.688	0.9%

Source: European Commission, 2013

Turkey is also member of the Euro-Mediterranean partnership and as such should conclude free trade agreements with all other Mediterranean partners, with a view to the creation (by 2010) of a Euro-Mediterranean free trade area.

At the Helsinki summit in December 1999 Turkey was given the status of a candidate country. The December 2004 Brussels European Council concluded that Turkey sufficiently fulfils the Copenhagen political criteria to open accession negotiations. Negotiations started on 3 October 2005 when the Council adopted a Negotiating Framework.
Despite negative impacts of the economic and financial crisis which is being felt since 2009, Turkey, as the 6th largest European economy, occupied the first place in Europe in terms of growth with a rate of 8.5% in 2011. Turkey has the second fastest growing economy in the world after China. Turkey also has intensive commercial and economic relations with the European Union. 70% of the foreign direct investment in Turkey comes from the EU (Republic of Turkey Ministry of Foreign Affairs, 2013).
Turkey's main industrial imports from the EU continue to be machinery, automotive products, chemicals, iron and steel. Its main agricultural imports from the EU are cereals. Major EU imports from Turkey include textiles and cloth, machinery, and transport equipment.

The reduction of the domestic demand in the EU naturally lowered the level of trade between them. Turkey's import rate from the EU decreased from 40,8% in 2007 to 39,3% in 2010. Also in this period Turkey's export to the EU declined from 56,8 % to 46,3% (Turkish Statistical Institute, 2011).

Table 3. European Union's Trade with Turkey (Millions of Euro)

Period	Imports	Share of total EU Imports (%)	Exports	Share of total EU Exports (%)	Balance	Trade
2008	45,963	2.9	54,415	4.1	8,452	100,379
2009	36,220	2.9	44,385	4.0	8,165	80,605
2010	42,397	2.8	61,747	4.5	19,350	104,143
2011	48,143	2.8	73,096	4.7	24,954	121,239

2012	47,789	2.7	75,172	4.5	27,383	122,961

Source: European Commission, 2013

Main Problems On International Road Transportation Sector Between European Union And Turkey

Turkey lies between Europe and Asia serving as a bridge geographically, culturally and economically. The share of the logistics sector in Turkey's GDP is estimated between 8-12 %. Thus, the size of the sector can be estimated as being around 65-95 billion USD in 2008. The size of the Turkish transportation and logistics industry is around 59 billion USD, while the share of the logistics service supplier market is 22 billion USD (Deloitte, 2010). In Turkey, investments in the transportation system are concentrated on land transportation infrastructure, and the country has developed one of the largest land transportation fleets in Europe. The network of highways has been developed significantly and the highway length now stands at 64,865 km, of which 2,080 km are motorways. At present 95 percent of passengers and 90 percent of goods are conveyed by highway transport (Investment Support and Promotion Agency, 2013). Transport sector leads the sector in harmonization and readiness to the EU. Today 43% of Turkish exports is carried by Turkish road transporters (International Transporters' Association, 2012).

One of the major problems in the Customs Union between Turkey and EU is the quotas applied to the road transport. The quotas delivered insufficiently and gradually to the Turkish transporters and visa applied to the truck and lorry drivers constitute an obstacle to the free movement of goods and they are against the Customs Union agreement. It is clear that without vehicle the goods can not be carried. So, limiting road transport quotas means limiting vehicles carrying export. And this means limiting export goods and restricting foreign trade. The illegality of the visa application to the truck and lorry drivers is enough clear. Customs Union covers the free movement of goods in all conditions. In any case, the consequence of application of transport quotas to Turkish transportation is that it constitutes "non tariff barrier" in the trade between Turkey and the EU (Müller-Graff and Haluk Kabaalioglu, 2012).

Enlarged EU caused unfair competition in international road transportation sector. The EU rapidly completed the membership applications of its last members, supporting them politically and economically. However, the Turkey-EU Customs Union is part of a global trade regime and is permitted by the World Trade Organization under Article 24 of the General Agreement on Tariffs and Trade. Both the EU and Turkey have been supporters of multilateral trade negotiations within the GATT/WTO system. Whilst Turkey undertakes almost all obligations arising from membership in a Customs Union, it has not received adequate support from the EU with regard to

problems of competitiveness and adjustment costs resulting from the opening up of the Turkish economy. Customs Union was not seen as an end in itself but a step further towards full membership of the EU. The hope of full membership that Turkey had in 2004 when the EU took the decision to open accession negotiations in October 3, 2005 receded due to complications, blockages and negative messages on the part of the EU (Müller-Graff and Haluk Kabaalioglu, 2012). So, now there are unequal competitive conditions between Turkey and all the members of Union under the Customs Union umbrella.

EU economic actors - businessmen, industrialist, service providers, researchers, market analysts- and all EU citizens travel with no restrictions and enter into Turkey either with no visa or with a visa to be obtained at the border post before making entry. The situation is completely reversed for Turkish citizens. All Member States imposed an entry visa requirement for citizens of Turkey. Goods are in free circulation within the Customs Union, however, the drivers, who drive trucks and carry goods to the European countries, must obtain an entry visa. After complying with all outrageous demands for documentation and paying substantial visa fees, drivers still have to wait days, sometimes weeks, thereby loading and delivery times run late. A visa fee means an extra cost. As a result of all these, the Turkish transporters lose their competitiveness.

Impacts of Economic Crisis on International Road Transportation Sector between European Union and Turkey

In the light of above mentioned issues, 2008's economic crisis deeply affected the international road transportation sector between the European Union and Turkey. Freight transport is in particular dependent on trade activity. According to the decreased trade volume, the number of trips also declined. The financial crisis which subsequently turned into an economic crisis, dramatically slowed down the demand for road freight transport services, due to the strong correlation between economic and transport growth.

Table 4. TIR Carnet Amounts Sent By IRU To Turkey

Years	TIR Carnets Sent To Turkey	TIR Carnets Sent To Other Countries	Percentage
2005	589000	3240650	18%
2006	689000	3599850	19%
2007	788500	3076250	26%

2008	765000	3253800	24%
2009	490000	2230400	22%
2010	701500	2822200	25%
2011	672000	3074500	22%
2012	685000	3158300	22%

Source: Turkish Union of Chambers and Commodity Exchanges, 2013

According to the Turkey's growing foreign trade, the amounts of TIR carnets providing by IRU also increased until 2008. Beginning from the end of 2008, when the economic crisis lifted its effectiveness, carnet numbers began to decrase. In 2009 there was a serious decline in carnet amount. The data show that carnet amounts are not at desired level in 2012. Especially in these periods in order to support its Eastern members, the EU decrased the number of permits for Turkish transporters. Because of permit deficiencies the Turkish transporters or achieved it by paying money, or there were long vehicle lines on border gates to the EU.
So, it can not be said that crisis is the only reason of falling trade volume between Turkey and the EU. The EU's visa restrictions for Turkish citizens, particularly to the drivers, limited road transport quotas for Turkish transporters, EU's several bureaucratic barriers, high penalties and protective policies are the another main causes of decrasing trade between the EU and Turkey. Opening of new trade opportunities for Turkey after the collapse of Soviet Union, such as CIS countries, also North African and Middle East regions, easy accession to these areas changes the routes of the Turkish transporters and the markets of the exporters.

Conclusion

The EU is one of the world's key economic players, accounting for about 30% of global GDP and 20% of global trade flows, while the Euro has emerged as a key international currency. The EU's experience has a unique experience in terms of regional economic integration. On the other hand, Turkey is a candidate country to the EU, the 16th largest economy in the world as well as the 6th largest economy in Europe.

Ultimately, a transportation is a range of service. But the EU countries use it as a obstructive tool against the Turkish foreign trade and as a fee collecting means from Turkish transporters. Each quota and visa imposed by the EU on Turkish transport sector increases transport costs, disturbs the

goods traffic and all these are reflected directly on producers and exporters. The limitation of the EU permit quotas does not only penalise the bilateral transport with the EU, but even worse, creates unnecessary contribution to the global warming resulting from the longer, less efficient routes and waiting times at the borders. An additional kilometers to bypass quota requirement mean extra fuel consumption and harm to environment. Imposing road transport quotas, EU, not only damages trade between EU and Turkey, but also restricts EU's own competitiveness and prosperity. The EU should maintain international trade and avoid protectonism. By this way it can eliminate the effects of crisis and pep up its economy.

In today's globalised economy, professional road transport is no longer merely a mode of transport but has become a vital production, distribution and mobility tool, driving economic and social progress throughout the world. Road transport is the backbone of the real economy. This industry must therefore be promoted and facilitated to provide better rather than more transport, and to effectively tackle current and future economic, energy and environmental challenges.

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The Relation Between Self-Esteem in Decision Making, Decision Making Styles and Problem Solving Skills

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Abstract

The aim of this study is to examine whether a relation between self-esteem in decision making, decision making styles and problem solving skills. The working group of the study consists of 467 participants who are working actively as tourist guides in the provinces of Ankara, Muğla and Antalya. The analysis of the relations among self-esteem in decision making, decision making styles and problem solving skills of tour guides was done by using Pearson Moment Multiplication Correlation Coefficient. Correlation analysis was performed to test between self-esteem, decision making styles and problem solving skills. As a result of correlation analysis between self-esteem and careful decision making style a positive weak relation founded. Between self-esteem with avoidant, dilatory and panic decision making styles a negative weak relation founded. A negative weak relation founded between self-esteem and problem solving skills. There is a relation between decision making styles and problem solving skills. Between careful decision making style and problem solving skills was found a negative mediocre relation. Between avoidant, dilatory and panic decision making style with problem solving skills was found a positive mediocre relation.

Keywords: Professional Tourist Guide, Self-Esteem, Problem Solving, Problem Solving Skills, Decision Making, Tourism Management.

Introduction

A tourist guide is someone who communicates with tourists during their travels, makes them enjoy their time, introduces all aspects of sightseeing locations, assists tourists in extraordinary situations, preserves their rights, eases travel organization, and possesses the necessary training to behave in accordance with ethical rules and standards (Tangüler, 2002: 3). Tour guiding constitutes a strategic factor in the representation of a destination area and in influencing the quality of the tourist experience, the length of stay, and the resulting economic benefits for a local community (Dahles,

2002, p.783). A tourist guide carries out the process of operation via his/her performance during the sightseeing, and through interest shown to the tourists; s/he plays a crucial role in satisfying tourists by dealing with the problems occurring during these operations in person (Yarcan & Peköz, 1998: 95). Generally, it is impossible to estimate why tourists go to a certain place and what they will do there (Brown, 2006: 365). Therefore, a tourist guide should be careful when communicating with tourists, and provide good tour management by carrying out travel planning in detail (Doswell, 1979: 66; Snell & Carpenter, 1992: 27; Crick, 1992: 142).

Each tourists guide should possess certain types of leadership characteristics; because tourist guides make leadership for tourist groups and direct them during the tour (Cohen et al. 2002, p. 919). Tour guiding is a strong emphasis on the mediation activities of guides: Mediation among hosts and guests, mediation between the tour operator/travel agency and the tourists, mediation among the tour leader and the local tourist scene, mediation between the hotel sector and the tourist (Dahles, 2002, p.784).

Conceptual information self-esteem in decision making

Kuzgun (1992) defines making decision as an orientation resolving the problem when there is more than one way regarding an object which is thought to meet a certain problem. Decision making is a cognitive process as well (Von Winterfeld & Edwards, 1986) and this process starts with the rise of problem and ends with the application of decisions and evaluation of results (Adair, 2000).

Self-esteem is the sum of judgments that an individual makes about him/herself as a result of this person's dealing with his/her own entity as an object, and evaluating this entity (Yılmaz & Altınok, 2010: 688). Again, self-esteem is to see and accept himself or herself as important (Kuzgun and Bacanlı, 2005), Furthermore, self-esteem is degree of perceptions of himself or herself as successful and valuable (Coopersmith, 1967; Rizvançe, 2005). According to Çolakkadıoğlu (2003), self-esteem is the degree of trust in an individual's decision making abilities; furthermore, high levels of self-esteem may provide healthier decision making ability (Brown & Mann, 1991). Generally, self-esteem is defined as an attitude of personal worthiness, and the sum of emotional thoughts reached as a result of an individual's self-attitudes (Coopersmith, 1967; Rosenberg, 1965), characteristics (Bagley et al., 1983; Budak, 2000; Yörükoğlu, 1998; Wells & Marwel, 1976), and the evaluation of behaviors and attitudes of the surrounding people towards an individual (Mead, 1934; Rogers, 1951; Yalom, 2002). An individual's self-esteem and trust in decision making is the dominant variable in this process (Mann et al., 1998).

Decision making styles

Decision making style is defined as the situation in which an individual shows an attitude or reaction, and acts in a decision making style (Phillips et al., 1984). Furthermore, decision making

style states the individual difference in evaluating information while making decisions or solving problems (Thunholm, 2004).

According to Deniz (2004), individuals use styles including careful, avoidant, dilatory, or panic in the decision making process. Individuals who apply the "careful" decision making style elaborately look for related information before making the decision, and make the choice after carefully evaluating the alternatives. Individuals who apply the "avoidant" style avoid making decisions and tend to leave the decisions to other people. Thus, they try to get rid of making the decision by turning the responsibility over to somebody else. Individuals who apply the "dilatory" style constantly try to delay or postpone decisions. Individuals who apply the "panic" style feel under pressure in terms of time when they encounter a decision making situation. As a result, they exhibit careless behaviors and tend to reach rapid solutions.

Studies regarding decision making styles show that people use very different methods when making decisions (Kaşık, 2009: 11). Individuals' characteristics enable them to make decisions in different ways, as these characteristics combine with their abilities. As a result, they use decision making styles (Tümer, 1999). Lots of different decision making styles, which are very similar to each other in terms of content while very different in terms of detail, have been considered via a literature review carried out in relation to decision making styles (Tekin & Ehtiyar, 2010: 399). Definitions of some of these are as follows: decision making style is a response which is learned, becomes a pattern, and is shown when an individual encounters a decision making situation (Scott & Bruce, 1995: 820); decision making style is the characteristic behavior of an individual which is affected in the process of decision making (Hulderman, 2003: 4).

Alternatives should be well-evaluated before making decisions. Therefore, decision making rises as a problem; in one respect, we have to make a decision in order to solve a problem (Deniz, 2004: 24).

Problem solving skills

While Kruger (1997) defines problem solving as the systematic process of intervention to undesired situations, Morgan (1999) defines it as finding the best way to deal with the problem encountered. Again in another definition, problem solving is defined as purposive, behavioral, cognitive, and emotional reactions towards meeting needs caused by inner and outer changes in the daily lives of individuals (Heppner & Krauskopf, 1987; Shewchuk et al., 2000).

An individual must acquire a problem solving skill in order to maintain his/her life healthily and protect his/her mental health. Effective problem solving skill requires being flexible, being attuned to an environment, and solving problems in order to reach the desired purpose (Arın, 2006: 43). According to Heppner and Anderson (1985), individuals who do not solve problems effectively are more anxious and distrustful, and remain incapable of understanding of anticipating the needs of other people, when compared to the individuals who have effective problem solving skills (Izgar et al., 2004: 2).

Bingham (2004: 26-36) states that there is not only one way in which to solve problems effectively. Problem solving behavior varies according to situation and time. It is possible for a problem solver to change his/her attitude and step from one problem to another. In spite of these changes, there are some basic aspects of the problem solving process which are conclusive and seemingly highly similar. These are:

1- Identifying the problem and feeling the need to deal with this problem,

2- Trying to explain the problem, to recognize the quality and area of the problem, and to comprehend the secondary problems concerning the aforementioned problem,

3- Collecting data and information concerning the problem,

4- Choosing and regulating the most suitable data for the problem,

5- Determining various possible solutions in the light of information concerning collected data and problems,

6- Evaluating solution aspects and choosing the most suitable one for the situation,

7- Implementing the agreed solution (trying),

8- Evaluating the problem solving method used.

Methodology and analysis

The Objective of the Research

The objective of this study is to examine whether a relation between Self-Esteem in Decision Making, Decision Making Styles and Problem Solving Skills. The importance of this study stems from the fact that there are very few studies in national and international literature regarding self-esteem, decision making styles, and problem solving skills of employees working in the tourism sector. In this respect, this study shall greatly contribute to the literature.

Sample Selection and Data Collection

The working group of this study is composed of 467 participants who are actively working as tourist guides in the provinces of Antalya, Muğla, and Ankara in Turkey. The data were collected in an annual education seminar of tourist guides organized by the Tourist Guide Association, which is monitored by the Ministry of Culture and Tourism.

Scales Used

The data collection tool is composed of four parts. In the first part, the participants' personal information was included. The second part contained 6 statements aimed at determining self-esteem (self-trust) in decision making. The third part included 22 statements measuring decision making styles. Finally, the fourth part contained 35 statements measuring problem solving skills.

The *self-esteem scale* in decision making is composed of six items developed using a Likert-type trial ranking. Grading is carried out as "True (2 points)", "Sometimes True (1)" and "Not True (0)" in

order to determine the accrual level of each item. The highest point that can be acquired from the scale is 12. High points mean high levels of self-esteem in the decision making process. The reliability co-efficient of the scale was found to be .74 for six countries (USA, Australia, New Zealand, Japan, Hong Kong, Taiwan) (Mann et al., 1998). Reliability and validity tests for this scale were developed by Deniz (2004) in Turkey, who found the reliability co-efficient of the scale to be .72.

The *decision making style scale* is composed of 22 titles developed as a Likert-type trial ranking scale. Grading is given as "True (2 points)", "Sometimes True (1)" and "Not True (0)", in order to determine the accrual level of each item. The decision making style scale is composed of four sub-scales, which are careful, avoidant, dilatory, and panic. High levels of points indicate that the relevant decision making styles are used. Mann et al. (1998) explains the features of sub-scales as outlined below, according to the results acquired from six countries:

- *Careful decision making style*: This is composed of six items, and its reliability co-efficient is .80. Individuals falling into this group look for information before making a decision, and make their choice by evaluating the alternatives. Deniz (2004) identified the reliability co-efficient as .80.

- *Avoidant decision making style*: This is composed of six items and its reliability co-efficient is .87. Deniz (2004) identified the reliability co-efficient as .78. Individuals falling into this group avoid making decisions and want other people to make decisions on their behalf. Therefore, they take their responsibilities to other people and try to get rid of these responsibilities.

- *Dilatory decision making style*: This is composed of five items and its reliability co-efficient is .81. Deniz (2004) identified the reliability co-efficient as .64, which is somewhat low. Individuals falling into this group permanently delay and postpone their decisions, without connecting this act to any reason.

- *Panic decision making style*: This is composed of five items and its reliability co-efficient is .74. Deniz (2004) identified the reliability co-efficient as .71. The individuals falling into this group feel themselves to be under pressure with regards to time when they encounter a decision making situation, show thoughtless behaviors and give rapid decisions.

The problem solving inventory (PSI) was developed by Heppner and Petersen (1982) and adapted to Turkish by Şahin, Şahin, and Heppner (1993). PSI is a self-evaluating scale which measures the perception of an individual's problem solving skills. A Likert-type, six-rank scale was used in order to determine the realization level of each item taking on the scale, which includes "I always behave like that (1)", "I mostly behave like that (2)", "I frequently behave like that (3)", "I sometimes

behave like that (4)", "I scarcely behave like that (5)", and "I never behave like that (6)". The PSI is composed of six sub-scales, which are hasty approach, considering approach, avoidant approach, evaluative approach, self-confident approach, and planned approach. When the scale is graded, the total points are found by reversing the negative statements. The lowest point is 32 and the highest is 192 in the scale. The high levels of points acquired from the scale mean that the individual feels him/herself to be insufficient regarding problem solving skills, and low levels of points mean that the individual feels him/herself to be sufficient. The Cronbach's alpha reliability co-efficient was found as .88 by dividing the odd numbers and even numbers, and the acquired reliability co-efficient was found to be .81 by using the dividing technique within the scope of the studies carried out for adapting the test into Turkish (Savaşır & Şahin, 1997).

The resultant evidence will be evaluated by using the SPSS 19.0 program.

FINDINGS

Demographical Characteristics

Demographic findings regarding the individuals participated in the study are shown in Table 1.

Table 1: Profile of Tourist Guides

Characteristic	Percent
Gender (n=467)	
Male	71.9
Female	28.1
Marital Status (n=467)	
Married	55.2
Single	44.8
Education Level (n=467)	
High School	11.1
College	25.9
Bachelor	56.7
Postgraduate	6.3
Ages (n=467) (Mean=34.3)	
≤30	41.1
31-35	13.7
36-40	19.1
41-45	8.9
46-50	8.6
51-55	4.8

≥56	3.8

There are more male (71.9%) than female (28.1%) tourist guides. Furthermore, 55.2% are married, while 44.8% of them are single. While slightly more than of the respondents have a bachelor's degree (56.7%), 25.9% have a college degree, 11.1% have high school degree, and 6.3% have a post graduate degree. With regard to age of participants, 41.1% are 30 years old or younger, 13.7% are aged between 31 and 35, 19.1% are between 36 and 40 years old, 8.9% are between 41 and 45 years old, 8.6% are between 46 and 50 years old, 4.8% are between 51 and 55 years old, 3.8% are 56 years old and above. Moreover, average age of the tourist guides is 34.3 years (Table 1).

Correlation Analysis

The Relation Between Self-Esteem and Decision Making Styles

Table 2: Pearson Correlation Analysis between Self-esteem and Decision Making Styles

		Careful	Avoidant	Dilatory	Panic
Self-Esteem	Pearson Correlation	,132**	-,168**	-,349**	-,334**
	Sig. (2-tailed)	,004	,000	,000	,000
	N	467	467	467	467

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

Pearson Correlation Analysis between Self-esteem and Decision Making Styles is shown in Table 2.The value of the Correlation coefficient Sig. (2 tailed) is found smaller than 0,01. There is a relation between self-esteem and decision making styles. A relation between self-esteem and careful decision making style is a positive weak Correlation at the value of 0.132. A relation between self-esteem with avoidant, dilatory and panic decision making style is a negative weak Correlation at the value of 0.168, 0.349 and 0.334.

The Relation Between Self-Esteem and Problem Solving Skills

Table 3: Pearson Correlation Analysis between Self-esteem and Problem Solving Skills

		Self-Esteem	Problem Solving Skills
Self-Esteem	Pearson Correlation	1	-,291**
	Sig. (2-tailed)		,000
	N	467	467

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

Pearson Correlation Analysis between Self-esteem and Problem Solving Skills is shown in Table 3.The value of the Correlation coefficient Sig. (2 tailed) is found smaller than 0,01 between Self-esteem and Problem Solving Skills Scores. There is a relation between self-esteem and problem solving skills. A relation between self-esteem and problem solving skills is a negative weak Correlation at the value of 0.291.

The Relation Between Decision Making Styles and Problem Solving Skills

Table 4: Pearson Correlation Analysis between Decision Making Styles and Problem Solving Skills

		Problem Solving Skills
Careful	Pearson Correlation	-,313**
	Sig. (2-tailed)	,000
	N	467
Avoidant	Pearson Correlation	,322**
	Sig. (2-tailed)	,000
	N	467
Dilatory	Pearson Correlation	,356**
	Sig. (2-tailed)	,000
	N	467
Panic	Pearson Correlation	,386**
	Sig. (2-tailed)	,000
	N	467

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

Pearson Correlation Analysis between Decision Making Styles and Problem Solving Skills is shown in Table 4.The value of the Correlation coefficient Sig. (2 tailed) is found smaller than 0,01. There is a relation between decision making styles and problem solving skills. A relation between careful decision making style and problem solving skills is a negative mediocre Correlation at the value of 0.313. A relation between avoidant, dilatory and panic decision making style with problem solving skills is a positive mediocre Correlation at the value of 0.322, 0.356 and 0.386.

Conclusion

It was found that 71.9% of the participants are male, 55.2% of them are married, 56.7% of them are graduates of bachelors degree and 41.1% of them are 30 years old or below.

As a result of correlation analysis between self-esteem and careful decision making style a positive weak relation founded. Between self-esteem with avoidant, dilatory and panic decision making styles a negative weak relation founded. A negative weak relation founded between self-esteem and problem solving skills. There is a relation between decision making styles and problem solving skills. Between careful decision making style and problem solving skills was found a negative mediocre relation. Between avoidant, dilatory and panic decision making style with problem solving skills was found a positive mediocre relation.

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The Role of Person-Job Fit and Organizational Commitment on Emotional Labor: Evidence from Turkey

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Abstract

The aim of this study is to analyze the relationships between person-job fit, organizational commitment and emotional labor strategies. Data were collected from 71 flight attendants in different Turkish airlines companies in Turkey. The person-Job fit scale, the organizational commitment scale and the emotional labor scale were administered. Results revealed that flight attendants who have high person-job fit should act less while serving to their customer that is, engage in less surface acting. The other salient result of this study is affectively and normatively committed flight attendants don't prefer surface acting, conversely, continuously committed employees engage in more surface acting. The implications of the findings are discussed.

INTRODUCTION

Service employee's behaviors are the most important determinant of the service quality (Pugh, 2001; Bowen, Siehl ve Schneider, 1989), so it is important to investigate the processes of these behaviors. Therefore, the aim of this study is to analyze the relationship between person-job fit, organizational commitment and emotional labor behavior of flight attendants. In the emotional labor literature, as far as we know, there is a dearth of empirical evidence regarding this issue.

LITERATURE REVIEW

Emotional labor has received considerable attention in recent years. Many jobs in service sector require a significant amount of emotional labor. Emotional labor is defined as "the management of feeling to create a publicly observable facial and bodily display" for a wage (Hochschild, 1983: 7). In the literature, it's stated that there are two emotional labor strategies: surface and deep acting. Surface acting is expressing organizationally required emotions by hiding real feelings. Deep acting

involves changing one's feelings in order to display organizationally required emotions. Generally research showed that deep acting is more likely to be perceived as sincere than surface acting so in terms of service quality and positive customers' reactions, deep acting is more effective than surface acting (Grandey, 2000; 2003). Since deep acting is more effortful than surface acting (Morris and Feldman 1996), we may expect that employees who fit better to their jobs engage in more deep acting when interacting with their customers. Person-environment (P-E) fit theory provides the framework for examining the relationship between person-job fit and emotional labor in this paper. P-E fit is defined as "the compatibility between an individual and a work environment that occurs when their characteristics are well matched" (Kristof-Brown, Zimmerman, & Johnson, 2005: 281). According to the concept of P-E fit attitudes, behavior, and other individual-level outcomes result from the relationship between the person and environment, neither only person nor only environment (Edwards, 1996). In this broad concept, scholars identify several distinct types of fit such as person-vocation fit, person-group fit, person-organization fit and person-job (P-J) fit (Lauver and Kristof-Brown, 2001). Briefly, P-J fit is defined as the match between person's characteristics and job's characteristics (Kristof-Brown, Zimmerman, & Johnson, 2005). According to Edwards (1991), P-J fit occurs in two cases. The first, when there is a match between the abilities, skills and knowledge of employees and the requirements of the job. Secondly, P-J fit occurs when needs, desires or preferences of an employee are met by the job. Employees who have high person-job fit should act less because their inner feelings are in line with desired emotions by their organizations and it's easy to comply with the display rules by changing their feelings. On the other hand, P-E fit theory states that incongruity between the person and the environment may lead to psychological, physiological, and behavioral strains (Edwards and Van Harrison, 1993), so a stressful employee may engage in more surface acting to show desired emotions like cheerful and friendly. Thus, we can predict the following hypothesis:

H1: P-J Fit is positively related deep acting and negatively related surface acting.

Organizational commitment is defined as "the relative strength of an individual's identification with and involvement in a particular organization" (Mowday, Steers, and Porter, 1979: 226). In the literature, commitment is conceptualized as a multidimensional construct (i.e., affective, continuance, and normative) (Allen and Meyer, 1990). Affective commitment is concerned with the extent to which the individual "identifies with, is involved in, and enjoys membership in, the organization" (Allen and Meyer, 1990, p.2). The continuous component of organizational commitment is the desire to maintain organizational membership because of the costs of leaving. The investments (e g, time or effort) that employees made in their organizations and lack of another job alternatives leads to this type of commitment (Becker, 1960). Finally, normative commitment reflects a feeling of obligation to continue employment in the organization (Meyer and Smith, 2000). In summary, "employees with strong affective commitment remain because they *want* to,

those with strong continuance commitment because they *need to,* and those with strong normative commitment because they feel they *ought* to do so" (Allen Meyer, 1990, p.3).

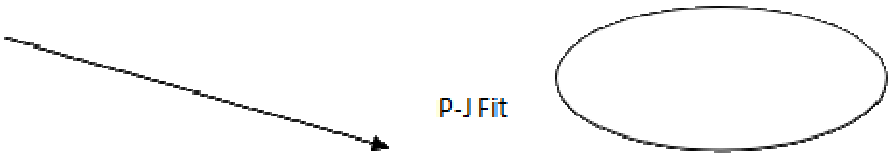
It is stated in the literature that, highly committed employees accept their organizations' goals and values and are willing to show extra effort on behalf of the organization (Steers, 1977). So we can expect that highly committed employees try to comply with organizational display rules and show greater effort to be perceived as authentic by their customer.

Although all three forms relate negatively to turnover, they have different implications for other types of work behavior (Meyer and Allen, 1991; Meyer, Stanley, Herscovitch and Topolnytsky, 2002). Research shows that affective commitment has positive correlation with desirable work behavior (eg job performance, organizational citizenship behavior), conversely, continuous commitment is unrelated or negatively related in some cases (Meyer, Paunonen, Gellatly, Goffn, & Jackson, 1989; Shore &Wayne, 1993; Meyer et al., 2002). So, affectively committed employees may engage in more deep acting to make a contribution on behalf of the organization, on the other hand employees who feel forced to remain in the organization may engage in more surface acting. In testing this idea, we predict the following hypothesis:

H2a. Affective commitment and normative commitment are positively related to deep acting, continuous commitment is negatively related to deep acting.

H2b. Affective commitment and normative commitment are negatively related to surface acting, continuance commitment is positively related to surface acting.

Figure 1 displays a schematic presentation of our theoretical model.



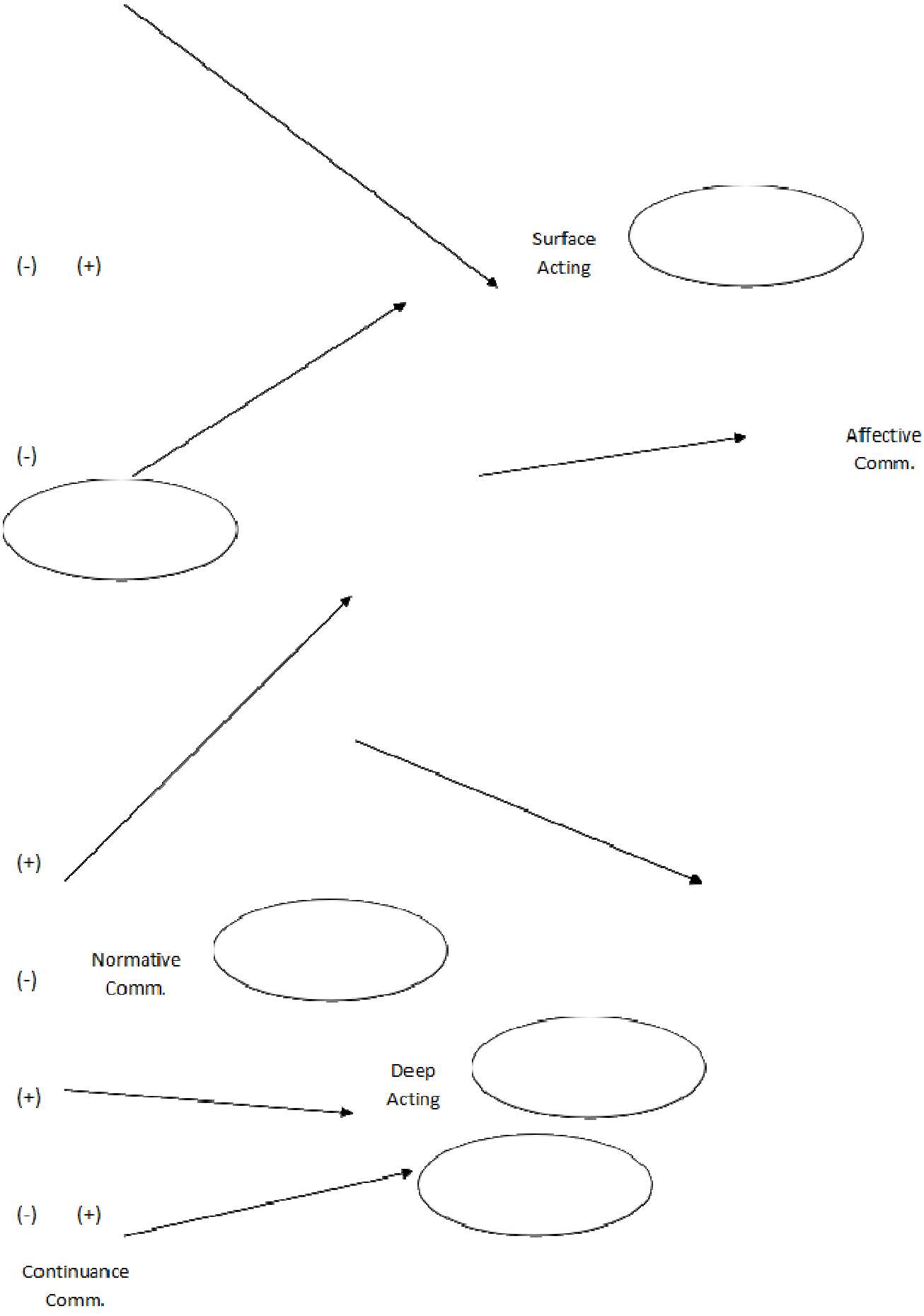

(-)
(+)
Surface
Acting
(-)
Affective
Comm.
(+)
(-)
Normative
Comm.
(+)
Deep
Acting
(-)
(+)
Continuance
Comm.

Figure 1. Theoretical model of this research

METHOD

Subjects and Procedures

Data were collected from Turkish airlines companies' flight attendants in Turkey. A questionnaire survey was conducted. The questionnaire that includes demographic information, organizational commitment, person-job fit and emotional labour items was delivered to 500 randomly selected Turkish airlines companies' flight attendants in Turkey. The sample included 22 female (31%) and 49 male (69%). The majority of the respondents were married (66,2%). The 33 percent of participants were the range of 23-62 years and the average occupational tenure of respondents was about 8,46 years.

Measures

Emotional Labor

To measure emotional labor, we used Turkish version (Oz, 2007) of the emotional labor scale developed by Brotheridge and Lee (1998). The scale consists of 19 items measuring the two dimensions of emotional labor. Participants were requested to evaluate each item in terms of the frequency of their feelings ranging from 1 (*never*) to 5 (*always*). Internal consistencies (Cronbach's alpha coefficients) were .87,2 for surface acting sub-scale and were .88,5 for deep acting sub-scale.

Organizational Commitment

Organizational commitment was measured by using the scale that was translated in Turkish by Wasti (2000) developed by Meyer, Allen and Smith (1993). The scale contains three dimensions of organizational commitment: Affective, normative and continuous commitment. Participants were asked to respond to organizational commitment scale by indicating the degree to which the condition applied to them on a five-point scale ranging from 1 (*strongly disagree)* to 5 (*strongly agree*). In this sample, Cronbach's alpha coefficients were .76,6; .76,5; and .78,4 for affective commitment, normative and continuous commitment respectively.

Person-job fit

Person-job fit was measured by Brkich, Jeffs and Carless (2002) scale. The scale has 6 items scored on a 5-point scale ranging from 1 (*strongly disagree)* to 5 (*strongly agree*). The factor analysis showed that the items loaded on only one factor. Cronbach's alpha for this scale was .81,9.

RESULTS

Descriptive Statistics

Table 1. Descriptive statistics and intercorrelation of the variables.

	M	SD	1	2	3	4	5	6
1. P-J Fit	2,23	,84	-	**,366****	**,420****	**-,258***	**-,482****	**-,258***
2. Affective comm.	3,04	,86		-	**,611****	-,194	**-,350****	,161
3. Normative comm.	2,85	,85			-	-,208	**-,349****	,035
4. Continuous comm.	3,24	,83				-	**,418****	,077
5. Surface acting	2,75	,77					-	**,498****
6. Deep acting	2,24	,57						-

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

*. Correlation is significant at the 0.05 level (2-tailed).

The descriptive statistics and a correlation matrix are displayed in Table 1. As can be seen from this table, all commitment dimensions and surface acting means fall in the middle zone on the five point Likert Scale. In addition, flight attendance reports lower deep acting as compared to surface acting. On the other hand, person-job fit mean score is the lowest score.

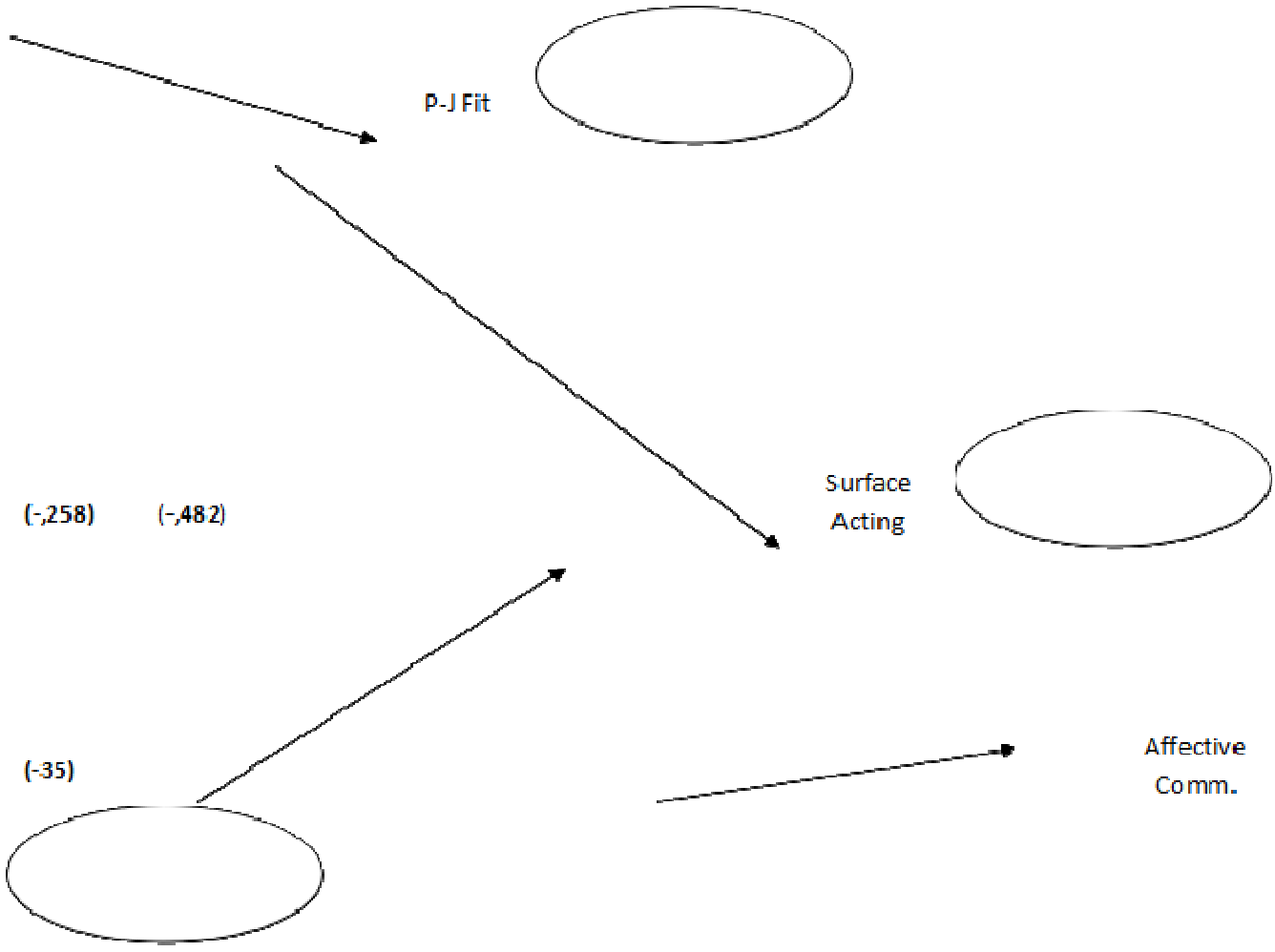
The Relationships between Person-Job Fit, Organizational Commitment Dimensions and Emotional Labor

Hypothesis 1 predicted that P-J Fit was positively related deep acting and negatively related surface acting. To analyze the relationships between person-job fit and emotional labor correlation analysis was conducted. Results are reported in Table 1. As expected, P-J fit had significantly negative relationship with surface acting. But we can see from the Table 1 that, contrary to our expectation, the relationship between P-J fit and deep acting is not positive. The correlation coefficient between P-J fit and deep acting is significantly negative at the 0,05 level. Thus, Hypothesis 1 was partially supported.

Hypothesis 2a that affective commitment and normative commitment would be positively related to deep acting, whereas continuous commitment negatively related to deep acting was not

supported by our results. There was no significant relationship between organizational commitment dimensions and deep acting.

Finally, our last hypothesis that affective commitment and normative commitment would be negatively related to surface acting, continuance commitment would be positively related to surface acting was supported. As can be seen from the Table 1, affective commitment and normative commitment were negatively related to surface acting, whereas continuous commitment was positively related to surface acting. That is, employees who affectively and normatively committed to their organizations don't prefer surface acting.



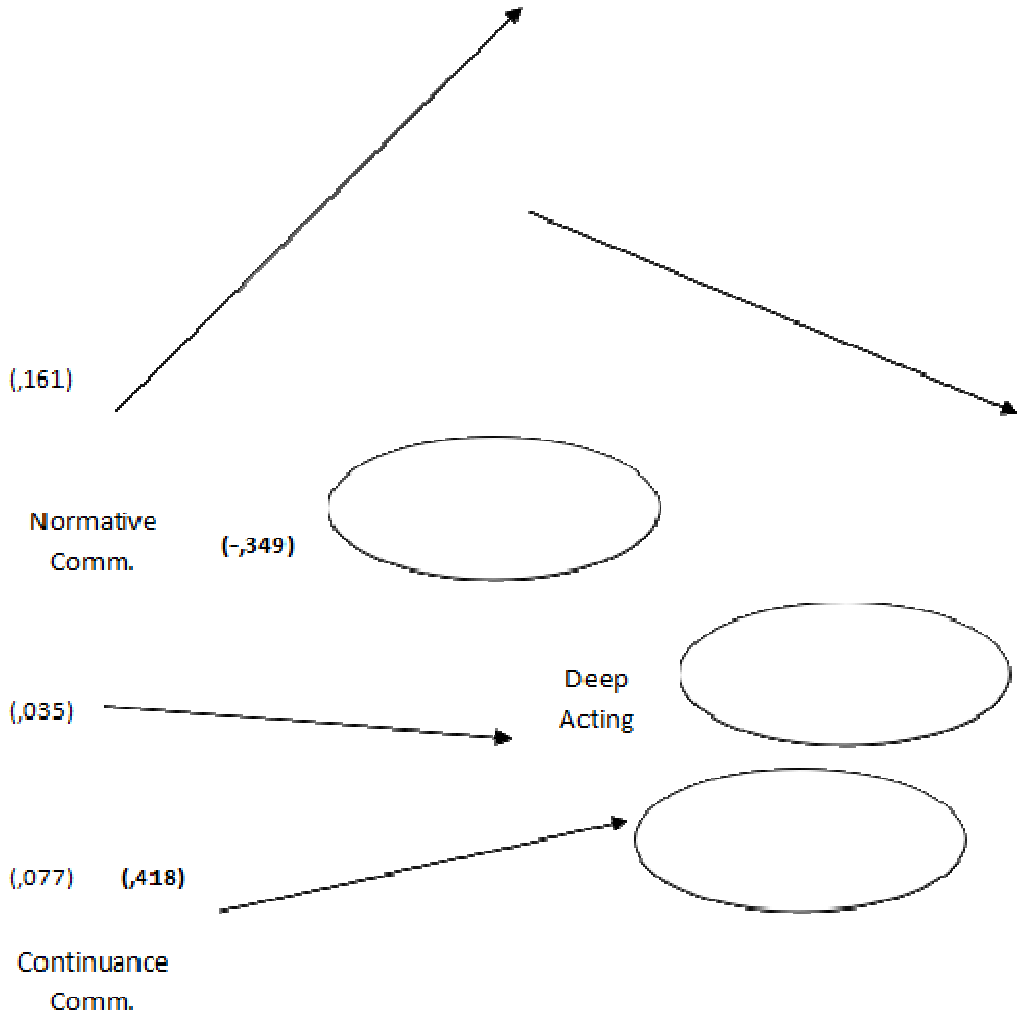


Figure 2. Theoretical model with correlation coefficients

DISCUSSION

The present study investigated the relationships between person-job fit, organizational commitment and emotional labor strategies. We attempted to find an answer to the question whether employees who fit better with their jobs and committed their organizations spend more effort to be authentic to customers. Person-environment theory and organizational commitment literature support this assumption. According to Edwards (1991), when there is a match between the abilities, skills and knowledge of employees and the requirements of the job and when needs, desires or preferences of an employee are met by the job, P-J fit occurs. So, employees who have high person-job fit should act less because their inner feelings are in line with desired emotions by their organizations. On the other hand, because organizational commitment is characterized by a strong belief in and acceptance of the organization's goals and values and a willingness to exert considerable effort on behalf of the organization (Porter et al, 1974), we expected that highly committed employees would show greater effort to be perceived as authentic by their customers.

As expected, we found that the higher the P-J fit reported by the flight attendants, the lower level of surface acting. But unexpectedly there was also negative relationship between P-J fit and deep acting. Briefly, flight attendants who fit better with their jobs, engage in neither surface acting nor deep acting while interacting with their customers. In addition to Hochschild (1983)'s definition, Ashforth and Humphrey (1993) stated that service providers comply with display rules in a third way, namely, through genuine emotion. Research has focused generally on surface acting and deep acting (Brotheridge and Lee, 2002; Grandey, 2003), because of their negative effects, such as burnout. But employees may naturally feel what they are expected to express without acting or managing their emotions. This may be the explanation of our results and we need to expend our research to include genuine emotions.

One unexpected finding was that there were no significant relationships between organizational commitment dimensions and deep acting. There can be several possible explanations to this finding. In the organizational commitment literature, there is ambiguity about commitment and performance relationship. Although Mowday, Porter, and Dubin (1974) suggest that highly committed employees may perform better than less committed ones, Steers (1977) concluded that no association exists between commitment and subsequent job performance. Another explanation is also likely that there are potential mediating situational variables that must be examined. Our result showed that there is no direct relationship between commitment and deep acting.

Finally, our results showed that while affective and normative commitment negatively related to the surface acting, continuance commitment positively related to it. This result supports the other research results that organizational commitment dimensions have different implications for different types of work behavior (Meyer and Allen, 1991; Meyer, Stanley, Herscovitch and Topolnytsky, 2002). Affectively or normatively committed flight attendants who stay with their organizations because they want to and because they feel they ought to do so don't prefer surface acting while interacting with their customers. Continuous commitment which means that people stay with the organizations because of they need to, engages in more surface acting. Surface acting is less effortful than deep acting (Morris and Feldman 1996). Flight attendants who need to stay with their organizations conform to display rules with minimum level of effort.

The present study provides insights into the importance of organizational commitment and P-J fit in emotional labor. There is evidence that three commitment dimensions have differentiated affects on emotional labor behavior and person job fit related with emotional labor strategies. The study makes a contribution to the emotional labor and organizational commitment literature, particularly in Turkey where few relevant studies exist on this issue as far as we know.

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