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KEY ASPECTS OF PLACE MARKETING AS INSTRUMENT FOR ATTRACTING FOREIGN INVESTMENT IN THE REAL SECTOR OF BOSNIA AND HERZEGOVINA

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Abstract

The paper explores the key aspects of place marketing in terms of their importance for attracting foreign investment into the real sector of Bosnia and Herzegovina (BiH). The research problem in this paper is the identification of the key features of place marketing for BiH as an investment destination as well as the features important to foreign investors when they make decisions on investing into the real sector in BiH. The research goals are: to determine the reasons motivating foreign investors to invest into the real sector in BiH, to determine the infrastructure features of BiH as an investment destination, to determine the key problems that foreign investors face in BiH, to gain knowledge of foreign investors' perception of BiH as an investment destination, and to determine desirable features of place marketing of BiH for attracting foreign investment into the real sector. The paper briefly highlights the importance of place marketing for attracting foreign investment and the characteristics of place marketing as an instrument for attracting foreign investment. The research results show that economic and legal framework is the key challenge in the development of marketing BiH as a desirable investment destination, and BiH is not recognized as a desirable investment destination.

Keywords: Place Marketing, Foreign Investment, Bosnia and Herzegovina as Investment Destination

1. Introduction

A large number of studies confirm the importance of foreign direct investment (FDI) for the economic growth and development of national economies. This is characteristic of both developed and less developed countries. Unlike developed economies, less developed

economies face substantial lack of financial resources, technologies and know-how necessary for investment, which poses significant lack to their economic growth and development. That is why less developed countries need to fight for investors on the international investment market and convince them to invest in their country. As FDI may provide the necessary input (financial resources, technology, and know-how) for their economic growth and development, the countries take different actions to create stimulating business environment on the one hand and to promote their investment potential on the other, all aimed at attracting foreign investors. This creates competition among countries on the demand-side of foreign investment capital. That is why the governments of these countries need to make an effort in creating favorable business environment and successfully present their countries to potential foreign investors as favorable investment destination that would enable the realization of their business goals.

Attracting foreign investors is a very demanding process due to strong competition among countries in this process. In addition, foreign investors have high demands and expectations when it comes to the recipient countries' respecting international business standards which would allow investors to manage their investment successfully. There are different approaches to the promotion of a country as an investment destination. Sometimes the focus is on the individual elements which give the country comparative advantage over other countries and may include natural resources, more developed infrastructure, stimulating macroeconomic measures (lower taxes, customs, etc.) or some other elements which the governments of these countries perceive as something that can motivate foreign investors to invest in the given country. The concept of place marketing has been increasingly used lately in the promotion of countries aimed at attracting foreign investors. This concept includes an integrated approach to positioning a country as a desirable investment destination. On the international investment market, the given country is presented to potential investors through a "complete investment package" which includes all determinants that define it as a desirable investment destination. The features that define a country or some other geographical location such as region, city, etc., as a desirable investment destination naturally need to be in line with the expectations of potential foreign investors. There is often a gap between what the governments of the countries offer to potential foreign investors and what foreign investors expect from host countries. In order to successfully implement the concept of place marketing, aimed at attracting foreign investors, one needs to systematically plan and implement the activities related to presenting the country as a desirable investment destination to potential investors, searching for potential investors, examining investors' specific needs and requirements, preparing the complete offer of investment potential of a county, organizing acceptance and assistance for foreign investors in the realization of their investment, and maintaining post-investment relations with foreign partners in order to further multiply their own and their partners' investment.

Today, many countries and companies use place marketing and place branding to target audiences to achieve their goals. Places have been marketing tourism, investment and export products for long, and there is widespread appreciation that a positive place image is a prerequisite for successful tourism, export or investment promotion (Govers, 2011).

As the competition between them increases, cities focus more and more on establishing themselves as brands. Consequently, cities invest an extensive amount of taxpayers' money into their marketing activities. Unfortunately, cities still lack a proper success measurement, which has raised questions regarding the efficient and effective use of taxpayers' money (Zenker and Martin, 2011).

The importance of this paper is primarily reflected in the fact that place marketing in BiH, as well as in the Western Balkans, were not often used as an instrument for attracting foreign investment. This paper can be useful to researchers in analyzing the causes of a weak inflow of foreign investment into individual countries. In addition, it can be useful to researchers in analyzing the impact of particular elements of place marketing on the willingness of foreign investors to invest in particular countries.

The paper presents the key features of place marketing for BiH in the function of attracting foreign investment into the real sector. The paper presents the opinions of the respondents (foreign investors) regarding: importance of individual characteristics of place

marketing (observed from foreign investors' point of view) for attracting foreign investment into the real sector of BiH, perception of BiH as an investment destination, reasons/motives why foreign investors decide to invest into the real sector in BiH, and infrastructure features of BiH analyzed by foreign investors when deciding to invest into this country.

The remaining part of the paper presents brief overview of key theoretical points about the importance of place marketing for attracting foreign investment and systematizes the key features of place marketing as an instrument for attracting foreign investment. Then, the methodology of empirical research and the results of the analysis are presented. Within the framework of the analysis, as indicated earlier, the emphasis is on reasons motivating foreign investors to invest into the real sector in BiH, infrastructural features of BiH important to foreign investors, key problems that foreign investors face in BiH, foreign investors' perception of BiH as an investment destination and desirable features of place marketing of BiH as an investment destination. Finally, conclusions are presented according to the set goals and hypotheses of the research.

2. Literature Overview

2.1. Importance of place marketing for attracting foreign investment

Simply put, place marketing is a set of marketing activities aimed at successful positioning of a certain geographical location on a given target market, which in our case is the international investment market. Place marketing is a continuous activity related to identifying potential foreign investors, analyzing their requests, creating the package of incentive measures important to present and potential investors, and efficiently presenting the country as an investment destination. The bearers of these activities are primarily government agencies in a certain country but a significant role should be given to other segments of the community, primarily the associations of entrepreneurs. It is important for the activities of preparation and realization of the concept of place marketing to be harmonized among different participants (for example government agencies at different levels and other subjects) so as to allow for the functionality of the entire procedure.

Place marketing covers the activities of constant evaluation and promotion of a certain territory that needs to enable detection of a "good product" and to drive towards formatting the offer that would lead to a clearly defined strategy to the target market, which would present and position the location as unique and recognizable (Deric, 2013). Managing place marketing is a constant process as in one period certain location (state, region, city, etc.) may be economically advanced, well positioned and attractive to investors while in another period its economic activity may be reduced, with unemployment rate increase and companies closing down, which is why investors may leave the given location. The success of locations in achieving continuity in being attractive to investors is defined by their understanding and proper exploiting the three key elements related to:

- characteristics of the companies or industries they belong to,
- characteristics of location, and
- external factors influencing economic performances of certain location (Deric, 2013).

One of the goals of place marketing is to constantly encourage the existing or potential investors to changes that might contribute to the development of new activities in a specific area, development of new technologies, etc. so that the given location may develop in line with the modern positive economic as well as social trends in general. This primarily refers to the strengthening of educational and research capacities as they are one of the factors that integrate a series of potentials that ultimately contribute to further economic and social boost of a specific geographic location.

Globalization of world economy and rapid technological change are the two factors that require locations to compete with other locations in attracting new investors. Locations should be seen as business zones presented as products offered to buyers (in this case investors). Such understanding of business environment in Japan and some other Asian countries such as Singapore, Hong Kong, Thailand, South Korea, and Taiwan brought extreme economic

prosperity. The synergy effect of actions performed for the common goal by companies and government leads to the creation of strong leaders at all organizational levels that set the trend and dynamics for the development of certain locations.

The main task of place marketing is to apart from extremely powerful inner and outer forces that shape it, with the assistance of the total resources, people and knowledge available, improve business environment and increase the influx of foreign investment (Kotler et al. 1993) It is important to bring competitive strategies at a national level that would satisfy the needs of foreign investors. These strategies can be realized and improved with the help of place marketing.

2.2. Features of place marketing as an instrument for attracting foreign investment

Development of place marketing for a country or its part (region, city, etc.) is a very demanding process that includes a set of constant activities that need to result in creating the environment with harmonized elements (legal, economic, political, technological, socio-cultural, etc.) that welcome foreign investors, offer stable business framework for their activities and long-term planning and inform them on their rights and obligations in a host country. One of the approaches to the development of place marketing is given in Figure 1.

The quality of place marketing is not determined only by business features but also by a set of elements compatible to the business community such as: education system, healthcare system, organization of life in the community, etc. Hence, a broader development of a community needs to be harmonized and compatible with the business segment of the given community. Development of place marketing needs to integrate all the relevant factors so as to successfully position a specific location on the international investment market.

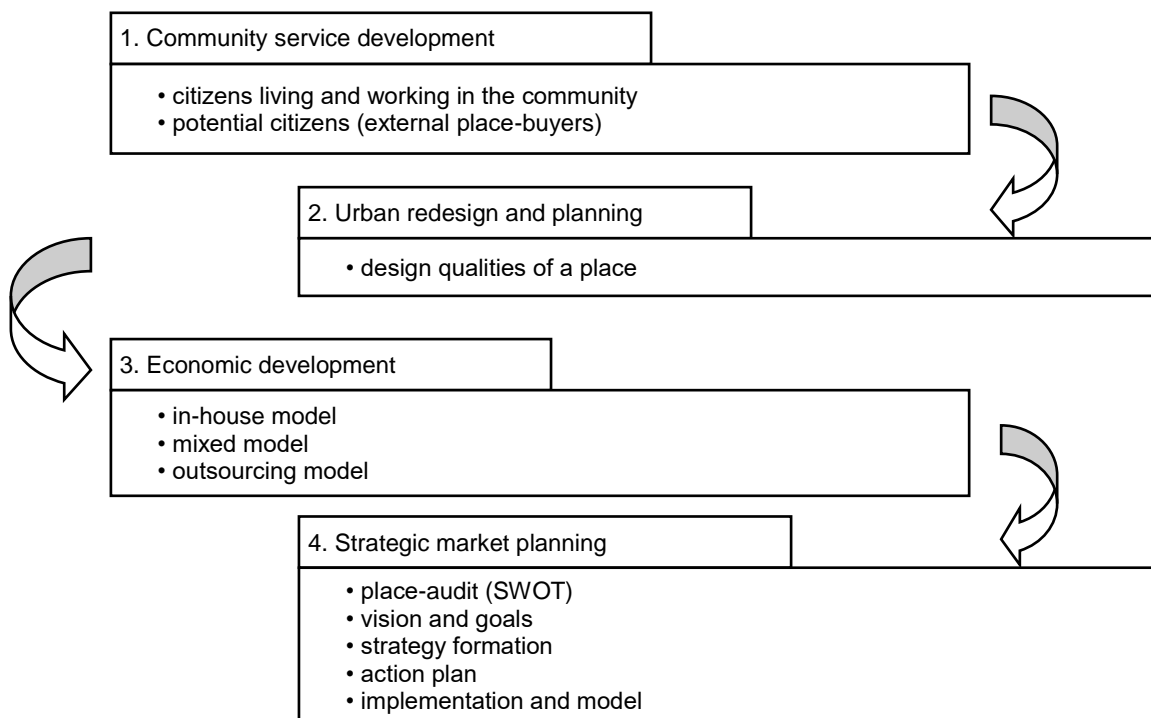


Figure 1. Process of place marketing development

Source: Rainisto (2003)

Place marketing includes four basic components as follows: creation and realization of the mix of marketing services and functions in a community, establishment and creation of industrial and tourist attractions for attracting new investors and businesses to the target

territory, provision of services in an efficient and accessible way, and promotion of location's value and image in such a way that all potential users are fully aware of the values and risks that characterize their location, region or nation and that market differentiation from competitors (other cities, regions, countries) is allowed (Kotler *et al.* 1993).

What is primarily pursued is for locations to have a special set of features that would bring the attention of foreign investors. A set of basic conditions should be satisfied, which foreign investors require before they even think about a certain destination. They primarily include:

- political and economic stability – long-term oriented investments that provide the largest benefit for location are never realized in the countries that are politically or economically unstable;
- regulated business environment – without the appropriate business environment there will definitely not be increased inflow of foreign investment. A successful program of attracting foreign investment requires unobstructed business activities of a company, without massive and complicated administration as well as additional business cost;
- infrastructure – open market with developed market institutions providing free market competition, developed legal infrastructure with good laws, incentive measured, anti-corruption measures, as well as the entire rule of law, well-built traffic, telecommunication, and safety infrastructure (Paliaga and Strunje, 2011).

For a certain location to become attractive for investment, appropriate measures need to be taken for the development of the business environment that would be stimulating for foreign investors. The most frequent measures taken by governments, aimed at encouraging foreign investment, can be divided into three groups of incentives: fiscal incentives, financial incentives, and other types of incentives (Bilas and Franc, 2006).

Investors' decision on the selection of a location is a complex process that requires the availability of a large number of information, their critical assessment, and precise evaluation of the available options. Bearing in mind that certain locations have largely different cultural, social, political, legal, economic, demographic, technological, natural, and other characteristics, it is clear that investors' behavior is beyond any doubt complex (Rakita and Sipragic, 2010). Investors' behavior regarding the selection of an investment location primarily depends on the following: the size of the market being invested, the market potential, and investment climate (business environment) on the market (Hornberg *et al.* 2011). There are certain factors that need to be considered while choosing the investment location: legal and regulatory factors, human resources, infrastructural factors, market factors, political and government influence, factors affecting profit retention, and economic factors (Cavusgil *et al.* 2012).

The remaining part of the paper presents the results of the empirical research on the key features of place marketing of BiH in the context of attracting foreign investment into the real sector.

3. Research Methodology

The research problem presented in this paper is the identification of the key features of place marketing of BiH as an investment destination and the features important to foreign investors when they decide to invest in the real sector in BiH.

The research goals presented in the paper are: to determine the reasons motivating foreign investors to invest into the real sector in BiH, to determine the infrastructural features of BiH as an investment destination, to determine the key problems that foreign investors face in BiH, to gain knowledge of foreign investors' perception of BiH as an investment destination, and to determine desirable features of place marketing of BiH for attracting foreign investment into the real sector. The research also required the definition of the real sector in BiH. The real sector includes: industrial production, civil engineering, retail sale, and labor market (Directorate for Economic Planning of BiH, 2019).

Research hypotheses:

H₁: BiH is not recognized as a desirable investment destination.

H₂: Economic and legal framework is a key challenge in the development of place marketing of BiH as a desirable investment destination.

The survey questionnaire was used as the form for collecting data. The respondents were top managers in the companies with partial foreign capital active in the real sector on the territory of BiH. The 150 largest companies (Foreign Investment Promotion Agency of BiH, 2018), which meet the previous condition, were selected and they were asked to participate in the survey. By the time the data for analysis was concluded, 52 companies had responded and completed the questionnaire. The survey questionnaire has 54 questions and 8 questions were selected in accordance with the previously set goals of the paper. The survey was conducted in 2018.

4. Results and Discussion

4.1. Reasons motivating foreign investors to invest into the real sector in BiH

In order to successfully create their activities, government agencies and other bodies active in attracting foreign investors need a set of information as an input to make quality decisions in the process. Some of the most important facts include the information on the reasons that motivate foreign investors to invest in a country. The research results show that top five motives why the respondents (foreign investors) decide to invest in the real sector in BiH are: appearance on the market of BiH (expanding sales operations on BiH market), labor force, country's stimulating measures, possibilities for preferential appearance on third markets, and available production inputs. The structure of individual motives is given in Figure 2. It is natural that the decision on investing in a country are related to a larger number of motives, which is why the respondents were able to select several which guided their selection of BiH as their investment destination. That is why the sum of responses for all the motives was higher than 100%.

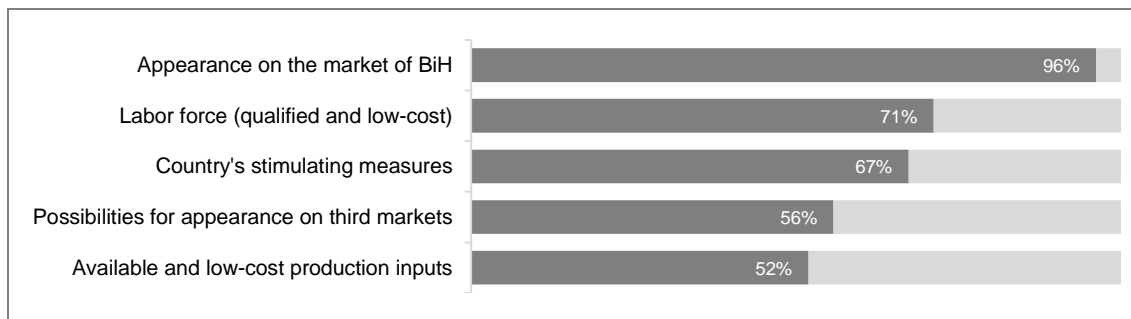


Figure 2. Top five motives for investing into the real sector in BiH as ranked by the respondents (foreign investors)

Source: Authors' research

The appearance on the market of BiH was the most important motive for foreign investment into the real sector in BiH and it was rated as such by 96% of the research respondents. For 71% of the respondents, the motivation for investment in the real sector in BiH was labor forces. The respondents highlighted two characteristics of labor force – high qualification and lower labor cost when compared to other countries (primarily some of the neighboring ones). Country's stimulating measures, apart from other factors, motivated 67% of the respondents to invest in the real sector in BiH. The fourth position was taken by the possibility to appear on third markets under preferential conditions (56% of the respondents). Available and low-cost production inputs closed the list of top five motives for investment into the real sector of BiH (52% of the respondents).

BiH competes on the global investment market with all other countries to attract foreign investment. From the perspective of BiH, the most evident competition is with the neighboring

countries. Figure 3 presents the reasons why the respondents decided to invest into the real sector in BiH rather than the neighboring countries.

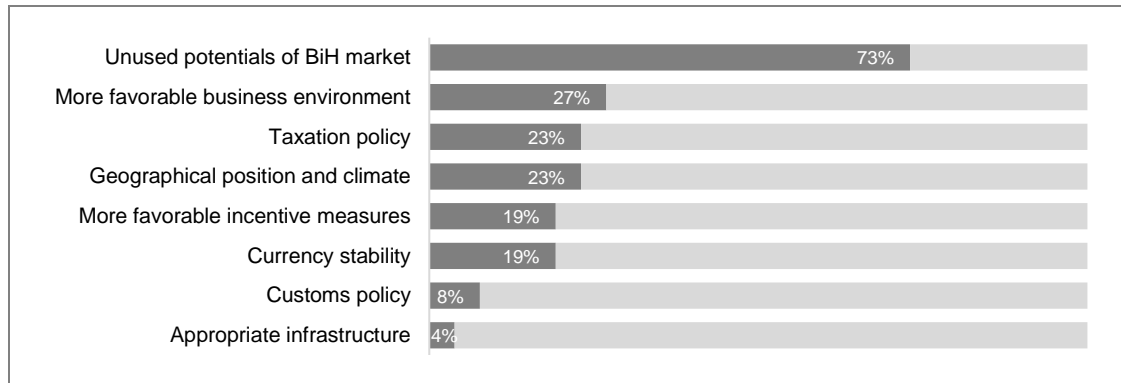


Figure 3. Reasons why the respondents decided to invest into BiH rather than neighboring countries

Source: Authors' research

The research results, presented in Figure 3, show that a set of very important reasons why foreign investors selected BiH over the neighboring countries was highlighted by a relatively small number of the respondents. For example, favorable business environment was the reason for 27% of the respondents, taxation policy was the reason for 23% of the respondents, currency stability was the reason for 19% of the respondents, and appropriate infrastructure was one of the reasons for only 4% of the respondents.

All these suggest that the majority of the respondents did not specify very important elements of place marketing (business environment, taxation policy, currency stability, and infrastructure) as the reason why they selected BiH as their investment destination. The majority of them (73%), stated that the main reason was under-utilization of the BiH market potentials. The respondents stated that the opportunity for utilizing the potentials of BiH market can be seen in the fact that most market segments are characterized as non-concentrated (there are smaller suppliers none of which has a decisive influence on the market). In addition, the respondents (foreign investors) stated that domestic competitors are relatively weak and that they could easily overcome them.

4.2. Infrastructural features of BiH important to foreign investors

Table 1 presents the research results related to the ranking of infrastructural advantages of BiH compared to other countries which the respondents (foreign investors) considered as their investment destination. Rank 1 shows that BiH has the biggest advantage when compared to other countries considered while rank 8 shows that it has no advantage over those countries. Hence, rank sums were sorted in the ascending order as the features with lower rank sum show bigger advantages of BiH.

As the results given in Table 1 show, 44% of the respondents market the development of road transport as the infrastructural feature which gives BiH the biggest advantage over other countries considered. Significantly less respondents saw the biggest advantage of BiH in other infrastructural elements such as internet access and freedom (19%), development of power supply and telecommunication network (19%), development of the banking system (10%), etc. The data suggest that BiH actually does not have a single infrastructural feature that would give it the dominant advantage over its competitors in attracting foreign investors. There are no features marked by 50% or more respondents as the one that could place BiH above other countries when it comes to attracting foreign investment.

Table 1. Structure of ranking infrastructural advantages of BiH compared to other countries the respondents considered for investment

Infrastructural features	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Rank 7	Rank 8	Total	Rank sum
Developed road transport	44%	2%	8%	27%	19%	0%	0%	0%	100%	143
Internet access and freedom	19%	38%	8%	4%	4%	0%	23%	4%	100%	180
Developed power supply and telecommunication network	19%	8%	27%	15%	4%	23%	4%	0%	100%	188
Developed banking system	10%	21%	27%	8%	4%	8%	0%	23%	100%	215
Developed railroad transport	4%	8%	12%	8%	15%	35%	19%	0%	100%	262
Developed river transport	0%	15%	4%	8%	23%	23%	19%	8%	100%	272
Number of airports and distance to airports in the neighboring countries	0%	8%	15%	15%	12%	0%	27%	23%	100%	288
Number of ports and distance to ports in the neighboring countries	4%	0%	0%	15%	19%	12%	8%	42%	100%	324
Total	100%	100%	100%	100%	100%	100%	100%	100%		

Source: Authors' research

4.3. Key problems that foreign investors face in BiH

The most significant problems that foreign investors face in BiH are given in Figure 4. The respondents ranked the importance of the problems on a 1-5 scale, with 1 as extremely small importance and 5 extremely large importance. The research results show that the most important problem for the respondents were complicated legal regulations (average value 4.1) as 92% of the respondents faced this problem while doing business in BiH. The second important problem for the respondents was the protection of investors (average value 3.8), recognized by 96% of the respondents. This problem is closely related to the first one—complicated legal regulations from the perspective of foreign investors. The respondents stated that they did not feel secured while communicating with regulatory agencies (in charge of implementing laws) and courts in BiH. The insecurity comes primarily as the consequence of a large number of regulations difficult to grasp by the respondents and the unpredictability that the respondents felt while communicating with regulatory agencies.

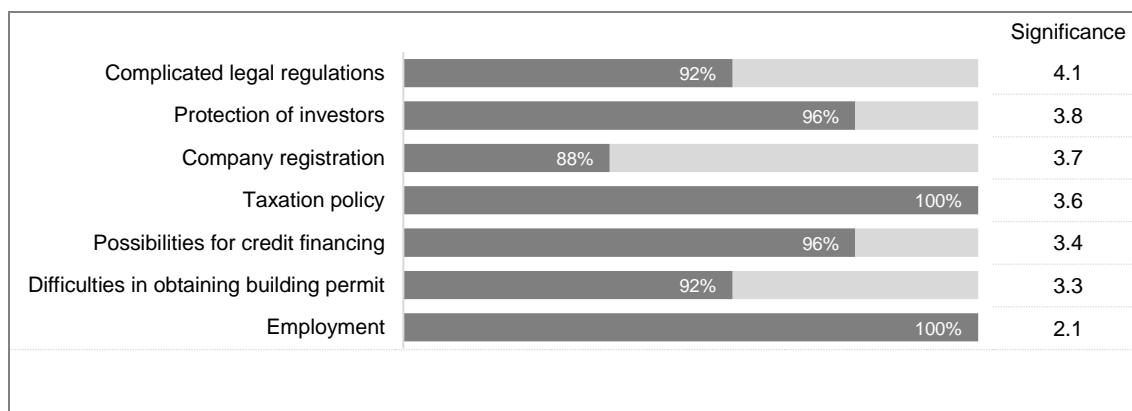


Figure 4. Problems that the respondents (foreign investors) face in BiH and their significance

Source: Authors' research

The process of company registration is at the third place in terms of its significance for the respondents (average value 3.7), recognized by 88% of the respondents. All respondents met two problems – taxation policy and employment, whereby the first was seen as more serious primarily for the two aspects – difficulties in familiarizing with a large number of tax and non-tax duties and slow administrative operations by tax agencies. The research results show that the most frequent problems for the respondents regarding employment were related to the administrative procedures of employee registration and deregistration and medical leave payments.

4.4. Foreign investors' perception of BiH as an investment destination

The highest number of the respondents (75%) stated that the information on business opportunities for investment into BiH were obtained from their business partners and friends. The smallest number of them obtained the information from BiH institutions. Unfortunately, only a fifth of the respondents found out about the opportunities to invest into BiH by means of promotional activities performed by BiH institutions (Figure 5).

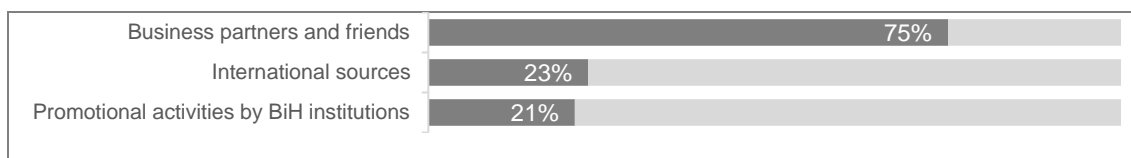


Figure 5. Sources of information for the opportunities to invest into BiH

Source: Authors' research

The overall perception of the respondents of BiH as an investment destination is given in Figure 6. Approximately one quarter of the respondents believe that BiH is recognized as a safe business destination. The same number of them think that BiH is a recognizable brand of "business destination". Unfortunately, the highest number of the respondents, more than three quarters, believe that BiH is perceived as a corrupt business destination.

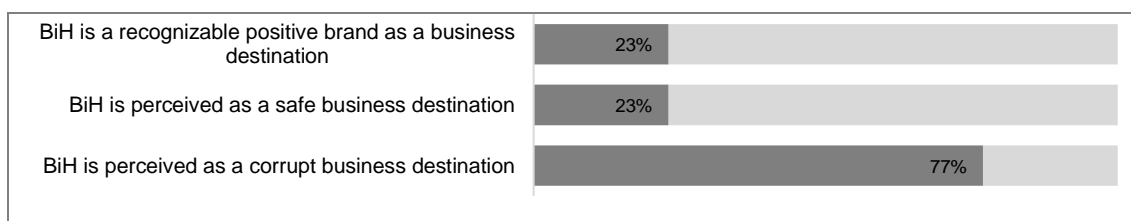


Figure 6. Respondents' perception of BiH as an investment destination

Source: Authors' research

With all this said, developing place marketing of BiH aimed at attracting foreign investment into the real sector is a serious challenge. However, bearing in mind the importance of foreign investment into the real sector has for economic growth and development of every country, let alone a developing country such as BiH, it is necessary to make persistent efforts to eliminate the problems that foreign investors face in BiH and to use high-quality solutions to build the brand of BiH as a favorable investment destination.

4.5. Desirable features of place marketing of BiH as an investment destination

Taking into consideration all the above mentioned, the data in Table 2 can be a useful input for the organizations that need to work on the development of place marketing of BiH to attract foreign investors. As the research results indicate, 42% of the respondents primarily highlighted the need for the improvement of infrastructure and urbanization. The respondents (foreign

investors) ranked the desirable features of place marketing on a 1-7 scale, where 1 was used for the most significant feature and 7 was used for the least significant feature. The features were ranked in the ascending order as the features with lower rank sum show more significant/desirable characteristics of place marketing of BiH.

Table 2. Structure of respondents' ranking desirable features of place marketing by their importance for attracting foreign investment into the real sector of BiH

Desirable features of place marketing	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Rank 7	Total	Rank sum
Improvement of infrastructure and urbanization	42%	27%	19%	4%	8%	0%	0%	100%	108
Establishing state-run bodies for providing services to foreign investors	31%	8%	35%	12%	0%	8%	8%	100%	154
Creating an appropriate set of promotional activities for attracting foreign investment	12%	38%	19%	12%	12%	8%	0%	100%	154
Proactive attitudes in finding foreign investors	8%	4%	8%	29%	29%	12%	12%	100%	233
Construction of business zones	4%	12%	12%	23%	4%	12%	35%	100%	252
Branding business location	4%	8%	0%	10%	33%	31%	15%	100%	267
Building the image of business location	0%	4%	8%	12%	15%	31%	31%	100%	288
Total	100%	100%	100%	100%	100%	100%	100%		

Source: Authors' research

For approximately one third of the respondents, the most important thing for attracting foreign investors was the establishment of state-run bodies that would provide services to foreign investors. The creation of an appropriate set of promotional activities for attracting foreign investment was the most important for 12% of the respondents. Therefore, the three first features (improvement of infrastructure and urbanization, establishment of state-run bodies for providing services to foreign investors, and creation of an appropriate set of promotional activities for attracting foreign investment) were seen as most important by 85% of the respondents when it comes to their effect in attracting foreign investment into the real sector in BiH.

5. Conclusion

Place marketing is an important instrument in attracting foreign investors as it enables the bearers of macroeconomic power in a country to systematically approach the finding of potential investors, analyzing their needs, creating the environment harmonized with investors' needs, and presenting investment potentials of a country aimed as its positioning on the foreign investment market as a desirable and recognizable investment destination. A particularly important issue in the development of place marketing is the identification of the location features that would allow for a given country to gain comparative and competitive advantages in attracting foreign investors over its competitors. Bearing in mind large competition among countries in attracting foreign investors, it is important for government agencies and other bodies to constantly work on the analysis of investors' needs, improvement of business (but also wider social) environment oriented to the support to the realization of investment projects, presentation of potentials of a given destination, and the creation of positive differentiation compared to other destination so as to build visibility in investors' perspective.

With all things considered, the first research hypothesis that BiH is not recognized by foreign investors as a desirable investment destination can be accepted as only 23% of the respondents perceived BiH as a safe investment destination. In addition, the presented research results enable the second research hypothesis to be confirmed – that economic and legal framework is a key challenge in the development of place marketing of BiH as a desirable investment destination. The key features of economic and legal framework for the development

of business (complicated legal regulations, protection of investors, employment procedures) were highlighted as the problems with the average value of significance for the respondents as more than 92% of them experienced such problems.

The bodies for planning macroeconomic development in BiH that are primarily in charge of place marketing of BiH have the opportunity to use these research results and learn about the activities they need to take in order to profile BiH as a desirable investment destination. The research identified desirable features of place marketing of BiH in the context of attracting foreign investment into the real sector, which is a significant input for the subjects that need to engage in their development. In addition, activities need to be taken in solving the problems that foreign investors face in BiH, which have also been identified in this research. Furthermore, a very important input for the subjects of macroeconomic development is the need to improve (change) the perception of BiH as an investment destination.

Apart from the fact that the research results provide a set of useful inputs for the subjects in charge of the development of place marketing of BiH in the context of attracting foreign investment, certain limitations of the research must be mentioned. The limitations are evident in the fact that the research looked into the synthetic features that require additional investigation and analysis. For example, the research identified that foreign investors highlighted the problem of complicated legal regulations and protection of foreign investors. However, the research did not deal with the content of individual legal regulations so as to examine which specific legal regulations are limitations/problems for foreign investors. The significance of the research is in the identification of problems that need to be analyzed in more detail.

New research should primarily investigate in more detail: micro and macro effects of the present foreign investment into the real sector in BiH so as to determine whether the motives of foreign investors to invest in BiH are in line with the strategy of country's economic development, causes of identified problems that foreign investors face and suggestions for the activities to solve them, and sources of negative perception of BiH as an investment destination and suggestions for the activities to improve the country's image.

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