

Research paper

Management of Local Authorities in attracting Tourism Foreign Direct Investments

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ABSTRACT

Aims: Many developing countries today are looking to tourism as potential of their economic development and solution to reducing unemployment. The aim of this article is to consider and analyze the management of local authorities in attracting tourism foreign direct investments.

Study design: Review paper.

Methodology: The well-known Porter's five forces was applies on local tourism destination and test whether in this way we can find a framework for determining opportunities and threats for the development of tourism in the local destination and consider the possibility of strengthening its position in relation to the five forces, in order to define strategies for attracting Tourism Foreign Direct Investments (TFDI).

Results: By applying Porter's five forces on the example of Divcibare, opportunities that allow the development of tourism products in line with world trends were recognized, the necessity of improving the quality of accommodation and services and the need for greater administrative and procedural efficiency of local self-government were pointed out, and a framework for finding potential investors was defined.

Conclusion: In this paper, by applying Porter's five forces, tourist destinations are given an opportunity to see their position in the domestic market, compared to their competitors, consider the extent and trend of investment flows in the world and the trends in the global tourism market and develop their services and contents in accordance with them. Tourist destinations can also realize the opportunities that are offered to investors in other countries and compare and consider all the conditions that await investors in making investment decisions in their country and local tourist destination.

Keywords: Porter's five forces, foreign direct investments, tourism, Serbia.

1. INTRODUCTION

Tourism is rightly considered the largest export industry and an important source of net foreign exchange inflow. The overall export income generated by inbound tourism, including passenger transport, exceeded USD 1,2 trillion in 2011.¹ Tourism exports account for as much as 30% of the world's exports of commercial services. For many developing countries, it is one of the main sources of foreign exchange income and the number one export category, creating much needed employment and opportunities for development.

With the emergence of the growing interest in the development of tourism and increasingly keen competition in the global market to attract tourists, there is a growing need to attract TFDI. Today's tourists have high standards in terms of comfort and quality of services, which sets before the underdeveloped countries serious tasks in developing a proper tourist offer.

Due to limited domestic resources for investment in tourism, Serbia, same as many developing countries, sees in Foreign Direct Investments opportunity for development, modernization of offer, increase of export, employment and income, but also prevention of migrations from undeveloped regions, where, due to preserved resources, tourism often can be the only opportunity for development.²

Tourist destinations in Serbia are facing stiff competition from both destinations in other countries, which tend to attract foreign investors and tourists, and competition in the country, between domestic destinations. Therefore, the task of the strategic management is to develop a strategic plan to attract foreign investment and to determine how to compete with its competitors in order to create a competitive advantage in the market, at the same time making sure that this advantage becomes permanent in the market and that competitors cannot easily copy it or replace.³

For attracting TFDI, of particular interest is information related to foreign markets and trends on it, suppliers, substitutes and buyers. For these reasons, in this paper, the author will apply the model of Porter's five forces on Divcibare, as a positioned mountain tourist resort in Serbia, near Belgrade, which has a favourable geographical position and variety of preserved tourist resources, and which for the further development of tourism needs TFDI.

By perceiving five forces through "domestic market and competition", "conditions for attracting investors", "costumers of tourist services", "potential investors" and "competition from other host countries", we will consider the possibility of analyzing the competitive environment of Divcibare and establish a framework for determining its opportunities and threats for further development of tourism, in order to define a strategy for attracting TFDI.

2. MICHAEL PORTER S "FIVE FORCES"

The five forces model, which was developed by Michael Porter, is the most commonly used instrument for analysis and a very useful tool when examining the competitiveness of environment. Through Porter's five forces, competitive environment is described by the intensity of rivalry among competitors in one branch of industry, entry barriers, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and services. Based on the analysis of these five factors, strategic decision makers can determine their opportunities and threats that exist in the competitive environment of a company.

2.1.The Intensity of Rivalry among Competitors

According to Porter, the level of rivalry among companies in the same industry is affected by seven circumstances.⁴ First - when there are many equally balanced competitors. Second -when demand for a products of an industry declines and when

the company, in order to continue to grow, has to win market share from competitors. Third - when due to the elimination of the high fixed costs, companies use the full capacity, forcing competitors to cut prices, thus strengthening the rivalry between them. The fourth circumstance occurs due to the lack of product differentiation and replacement costs, which is why customer makes a decision based on price and service. The fifth circumstance occurs when capacities are being increased on a larger scale, which inevitably leads to lower prices and tougher competition. The sixth circumstance arises when, due to the differences, is hard to predict how the competitors will act in a certain situation, especially when they are ready to reduce their profitability in order to achieve goal for high strategic stakes. The seventh circumstance occurs when there are high exit barriers, that is, when companies from certain economic, strategic, and emotional factors, are ready to do business with small profit or even negative business.

2.2. Entry Barriers (Threat of New Entry)

Entry barriers are obstacles to entry of new companies in an industry. According to Porter, there are six basic sources of entry barriers:

1. "Economy of scales" - when with increase in production, costs per a unit of product are decreased, which brings newcomers, in order to be competitive, before a choice to enter the market on a large scale, or work on smaller scale with high cost.
2. "Differentiation of products"- when "newcomers" are faced with high costs, in order to cope with existing brands and their loyal customers.
3. "Capital requirements"- when newcomers need to invest substantial financial means in order to be competitive, especially if they do not have such resources at their disposal.
4. "Switching costs" - when buyer needs to pay high costs due to switching of suppliers, regardless of whether they are financial or „psychological“ costs .
5. "Access to distribution channels"- when "newcomers" are denied access to distribution channels.
6. "State policy"- when a state, through its legal regulations, such as issuing of licenses, standards, etc., hinders entry of newcomers, which may create entry barrier.⁵

1.1. Bargaining power of buyers

"Buyer Power" occurs when customers buy large quantities of product of a particular seller, thus in this situation the customer is more important to seller than the seller to the customer, or when buyer is faced with a low-cost replacement costs, because these products are not standard or even not differentiated. Low levels of personal income and the achievement of a small profit will also force the customer to reduce the cost of purchase, which manifests their bargaining power. In addition to the many factors that strengthen the bargaining power of buyers, we will also mention awareness of customers on current market prices, costs of suppliers etc., which gives them a much greater chance of getting better prices and makes their bargaining power greater.

2.2. Bargaining power of suppliers

Bargaining power of suppliers occurs when an industry has not many suppliers or if an industry consists of a large number of smaller buyers, that is, companies. However, the bargaining power of suppliers is reduced by substitute products if they are present in that branch of industry. If a supplier delivers its products to several production sectors, its bargaining power increases with larger number of customers to whom it supplies its products. The power of suppliers also grows if product of a supplier is a critical input for the customer. The supplier also strengthens their bargaining position when their products are differentiated and when there are replacement costs for customers. Finally, the bargaining power of suppliers increases if the supplier can perform business performed by the companies, and are more cheap. In such situation, if the buyer does not accept the terms of the supplier, supplier could acquire a new competitor in his branch of industry that would eventually shut him out of business.

2.3. The Substitute Threat

In order to assess the risk of substitute products, it is necessary to see whether the other production branches have products that can perform the same function as the original products of a manufacturer.

Therefore, the Porter's Five Forces Model provides „the framework for determining opportunities and threats both in economy and competitive environment“.⁶

3. Analysis of the Competitive Environment of Tourist Destinations Aiming at Attracting FDI by Applying Porter's Five Forces Model

The Porter's five forces are shown in Figure 1 through “home market and competition“, “conditions for attracting investors“, “customers of tourist services“, “potential investors“ and “competition from other host countries“. We will explain them in more detail on the example of mountain tourist place Divcibare and consider the competitive environment of this tourist destination.

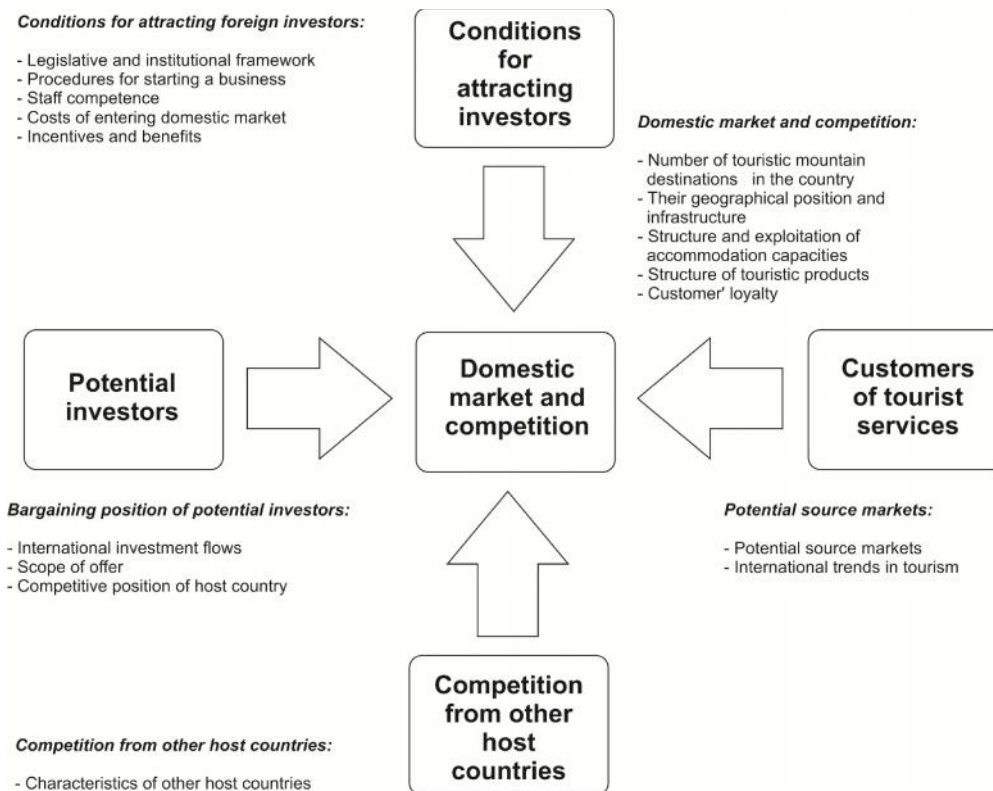


Figure 1: Porter's Model of Competitiveness of Tourist Destinations

3.1. Domestic Market and Competition

We shall define "the intensity of rivalry among competitors" in the competitive environment of a destination as "Domestic Market and Competition", and within this force, we will consider the competitive mountain destinations in Serbia compared to Divcibare, their geographic location, tourist traffic, structure and utilization of accommodation and differentiation of offer of their touristic products.

Based on data taken from the Statistical Yearbook of the Republic of Serbia shown in the Table 1, the most famous mountain tourist destinations of Serbia and tourist traffic they achieved in 2011 were presented. From tourist destinations shown in the Table 1, by geographic location, the nearest destination to Belgrade and the international airport is Divcibare, while the route of the new highway, Corridor XI, whose construction should begin soon, will contribute to an easier and faster access to Rudnik, Ivanjica, Zlatibor and Tara. Tourist traffic in Zlatibor, Kopaonik and Tara is far greater than the tourist traffic in Divcibare. Number of registered overnight stays in Divcibare is modest, while the share of foreign tourists is symbolic. (Table 1).

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Table 1: List of Visits to Mountain Places in 2011

	Tourist Arrivals		Nights	
	Total	Foreigners	Total	Foreigners
Mountain Places	402221	47162	1590016	147803
Zlatibor	118248	19650	483316	65046
Kopaonik	65874	6524	270535	28978
Tara	55482	3751	198314	12021
Divčibare	30400	1475	128897	4766
Ivanjica	16682	1256	85829	3210
Zlatar	5572	749	15541	1863
Rudnik	9812	511	62071	3892

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* Statistical Yearbook of the Republic of Serbia 201, p. 330.

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When it comes to structure of accommodation facilities, more developed destinations such as Zlatibor and Kopaonik have accommodation facilities that are structurally better suited to the needs of the tourism market, however, their average utilization is insufficient.

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Based on the tourist traffic, utilization of accommodation facilities of mountain places can be derived. For the purposes of this paper, we will list the data contained in the Master Plan Zlatibor-Zlatar for the period 2001-2006: average utilization of facilities in Zlatibor was 20%, while in the seven famous hotels was 53%, and in Zlatar, in 2006, the average utilization was 25%, and 39% in hotels (2 in total).⁷

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When it comes to Divčibare, according to the Feasibility Study for Designation of Divčibare as Tourist Area, the highest level of occupancy have resorts (55%), while the occupancy of hotels is unprofitable – 25-33%, and 20% in inns.⁸ For higher capacity utilization, it is necessary to raise the quality of accommodation and service.

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Within this force, it is necessary to consider the differentiation of tourism products of the mentioned mountain destinations (Table 1). Based on their natural resources, it can be said that the potentials for development of tourism products are mostly similar. Differentiation exists in some tourism products. Thus, for example, Kopaonik is primarily positioned as a ski resort because of its altitude, the amount of snow cover, an extensive network of ski lifts and slopes. The range of tourism products that are developed and incorporated into these destinations' offer is mostly the same. Therefore, in these circumstances, for particular tourist products in destinations, pricing policy and the quality of service can be decisive for a customer.

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3.2 Conditions for Attracting Foreign Investors

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We will examine „Entry barriers“ through „conditions for attracting foreign investors in a host country“, and within this force, we will consider legislative and institutional framework in Serbia, procedures for starting a business, costs of entry into domestic market and incentives and benefits offered to foreign investors.

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230 In terms of the legal framework, for foreign investors and the safety of their
231 investment, of particular importance is harmonization of legislation with the rules and
232 principles of the WTO and EU regulations, on which Serbia was working intensively
233 during the negotiations for membership in the WTO and preparations for European
234 integration. Serbia has signed a number of Bilateral Investment Treaties (BITs) on
235 mutual encouragement and protection of investments with many countries, as well as
236 international agreements on avoidance of double taxation.

237 For foreign investors who are considering the option of investing in the tourism of a
238 country, in addition to the legislation, which directly or indirectly has an impact on the
239 tourism sector, of equal importance is institutional framework.⁹ In Serbia, a key
240 government body engaged in the development of tourism is the Ministry of Finance
241 and Economy, and the National Tourism Development Corporation is responsible for
242 providing information to potential investors about investment conditions, incentives
243 that are given to them, market research and analysis, brownfield and greenfield
244 investment sites, etc.¹⁰

245 Within this force, very important is the indicator of the business cost. They vary in
246 Serbia depending on the local government. Since recently, the business association
247 „Naled“ developed a calculator for comparing business, aiming at understanding and
248 transparency of certain local taxes.¹¹

250 Finally, within this force, one should keep in mind that Serbia provides incentives to
251 foreign investors, which includes the strategic projects in the field of tourism.
252 „Regulation on Conditions and Ways for Attracting Foreign Direct Investments“ of
253 2012 provides for all cities and municipalities to have equal opportunity in terms of
254 incentives, which for the services sector is from 2000 to 4000 Euros per employee,
255 regardless of the number of employees.¹²

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3.3. Customers of Tourist Services

261 „Bargaining power of customers“ is shown in Figure 1 as power of „customers of
262 tourist service“. We will examine it through potential source markets of a host country,
263 taking into account current trends in tourism.

264 Bargaining power of customers increases when tourists can choose among a large
265 number of destinations in the world and if the products are not differentiated. When
266 tourism products are not differentiated, especially in the circumstances of the global
267 crisis and lower living standards, the bargaining power of customers of tourist services
268 is growing, because the need to reduce costs is especially pronounced.

269 In the case of Divčibare, in accordance with the existing level of development and
270 accessibility of the destination, it is necessary to focus on attracting domestic tourists,
271 tourists from neighboring countries as well as non-residents from Serbia, especially
272 from Belgrade, because of its proximity. With the arrival of foreign investors and
273 completion of highway construction and high category accommodation with tourist
274 attractions (golf, wellness, restaurants, tennis courts etc.) that meet the criteria of the
275 demanding tourists market, and by providing a higher level of service quality, source
276 markets should also be sought in other EU countries, depending on the tourism
277 product.

278 Potential source markets should be also sought on the basis of analysis of the ruling
279 trends in the international tourist market (tourism “over sixty“, sustainable tourism,

fewer household members, more single people, a growing interest in small market niches, etc.), and in accordance with the offer and potentials for development of tourist products of a destination. In this way, one can comprehend changes occurring in the market, objectively evaluate their own position, realize needs and guidelines for further direction of development of tourist destinations, which also defines a guideline in terms of selection of necessary investments and their attraction to the destination.

3.4. Potential Investors

We will perceive potential „power of suppliers“ as bargaining position of „potential investors“, and based on the data of the World Investment Report (WIR) 2011, determine the investment outflows and their trends.

Developed economies have a key role in FDI outflows (as well as in FDI inflows). Particularly large is the share of the European Union and the USA. However, developing economies are becoming increasingly important, both as host countries and as investors. Among them, the biggest investors were from countries of South, East and South-East Asia. The sudden drop of FDI outflows in 2009, which was a result of the global crisis, was stopped in 2010. In developed countries, in 2010, their slight increase of 10% compared to 2009 was recorded, while flows of countries of South-East Europe and the CIS grew by 24%, reaching almost 61 billion USD.

Therefore, the scope of FDI outflows is also changing. Although still the largest scope of investments comes from developed economies, participation of developing economies and economies in transition is growing.

Table 2: FDI Outflows, by Regions and Selected Economies, 2005-2010

Region	FDI outflows (USD)					
	2005	2006	2007	2008	2009	2010
World	882.132	1.405.389	2.174.803	1.910.509	1.170.527	1.323.337
Developed Economies	745.679	1.154.983	1.829.044	1.541.232	850.975	935.190
European Union	605.515	690030	1.199.325	306.199	370.016	407.251
USA	15.369	224.220	393.518	308.296	282.686	328.905
Developing Economies	122.143	226.683	294.177	308.891	270.750	327.564
Asia and Oceania	86.176	151.611	221.727	218.560	219.579	244.656
South, East and South-East Asia	73.599	128.997	187.513	178.256	193.191	231.585
Latin America and the Caribbean	33.999	68.129	61.731	80.580	45.544	76.273
Africa	1.968	6.943	10.719	9.750	5.627	6.636
South-East Europe and the CIS	13.310	23.723	51.581	60.386	48.802	60.584

* WIR 2011, *Global Investment Trends*, United Nations, New York and Geneva, p. 187-190.

The bargaining power of investors is also affected by the competitive position of the host country, and in this sense, they can get information from the reports of various international organizations and institutions, which contain indicators of utmost importance for them. In the Table 3, some of the indicators of the elements of economic environment in Serbia were shown, according to the World Bank report, out of 185 economies.

Based on the presented data, far biggest administrative obstacle in the development of business in Serbia is obtaining construction permits, registering properties and paying taxes, which means that administrative and procedural efficiency did not improve, but on the contrary, it went worse in relation to previous year. In order to solve these problems, it is necessary to implement public sector reform, simplify and shorten procedures, which will also result in reduction of costs. Significant step forward is recorded in starting business, where Serbia improved its ranking by 49 places compared to 2012.

Table 3: Serbia's Position in the World by Conditions for Doing Business

Category	Rank 2013	Rank 2012	Change in Rank
Starting a Business (rank)	42	91	49
Dealing with Construction Permits (rank)	179	178	-1
Registering Property (rank)	41	40	-1
Getting credit (rank)	40	38	-2
Protecting Investors (rank)	82	79	-3
Paying Taxes (rank)	149	145	-4
Trading Across Borders (rank)	94	92	-2

* Ease of Doing Business in Serbia
<http://www.doingbusiness.org/data/exploreeconomies/serbia>, accessed on 04/02/2013.

In the context of the observation of this force, it should be kept in mind that the investor's bargaining power is affected by a growing number of destinations, that is, countries that are interested in the development of the tourism sector and see in it the opportunity for development and employment growth.

3.5. Competition from Other Host Countries

The power of „substitutes“ can be seen through „competition from other host countries“, where analysis of characteristics from competitive countries with similar geographical characteristics and tourist resources is carried out. The Tourism Development Strategy of Serbia defined Bulgaria, Romania, Czech Republic, Slovakia

and Hungary as competitive countries, whose rank in the world and Europe is shown in the Table 4.

Table 4: Ranking of Countries from Serbia's Competitive Environment in 2011

	Index	Rank in the world	Rank in Europe
Bulgaria	4,39	48	27
Romania	4,17	63	34
Czech Republic	4,77	31	22
Slovakia	4,35	54	31
Hungary	4,54	38	26
Serbia	3,85	82	38

* WEF, Travel & Tourism Competitiveness Report, 2011.

Out of the countries shown in Table 4, we will examine the Czech Republic as a continental country, one of the newer EU members, which attracts the attention of investors from around the world and records continuous growth in capital investments in all sectors, including tourism.

The geographical position of the Czech Republic is very favorable. It is located in the centre of Europe, represents a crossroads of major transit corridors. Czech Republic has a highly developed transportation network and 91 airports. By becoming the EU member, it became an integral part of the single market of 27 European countries, with 502 million users.¹³

Total number of employees in the tourism sector of the Czech Republic in 2009. amounted to 239,500, and accounted for 4.6% of total employment.¹⁴

Thanks to Prague as a strong tourist attraction, Czech Republic has been able to develop tourism and provide a significant source of revenue needed for economic development.

Czech Republic participates with 4% in international arrivals in Europe, while in revenues its share is 2.6%, which compared to Serbia's competitive countries, is by far the largest revenue.¹⁵

4. CONCLUSION

With the strengthening of the globalization trend and emergence of a growing number of countries that have ambitions to develop their tourism sector and see their chance through attracting Tourist Foreign Direct Investments, information from the international market become increasingly important. Without them, they cannot comprehend opportunities to how to strengthen their position and determine the appropriate strategy.

In order for tourist destinations of these countries, within their jurisdictions, as defined by the policy of the Government of the host countries, to attract foreign investors to decide to invest in them, of particular importance is to look at its competitive environment and opportunities for positioning in relation to Porter's five forces.

By applying the Porter's five forces model on the example of Divčibare, opportunities in its natural resources were recognized, which allow the development of tourist products in accordance with current international trends in tourism, near Belgrade, international airport and highway that is under construction. Five forces model pointed out the necessity of improving the quality of accommodation and services, as well as the need to achieve even greater administrative and procedural efficiency, such as obtaining construction permits, registering property in the area falling under the jurisdiction of local self-governments. Finally, by applying this model, a framework for finding potential investors was defined.

The Porter's five forces model proved to be a very useful tool that allows tourist destinations in the country to see their position in the domestic market, compared to their competitors, consider the extent and trend of investment flows in the world and the trends prevailing in the global tourism market and develop their services and contents in accordance with them. By applying this analysis, tourist destinations can also realize the opportunities that are offered to investors in other countries and at the same time compare and consider all the conditions that await investors in making investment decisions in their country and local tourist destination.

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⁹ General Guidelines for the Development of Foreign Direct Investment Indicators on the Tourism Sector (2005), WTO Department of Statistic and Economic Measurement of Tourism, Madrid, pp. 56-57.

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