

Experiences of Foreign Investors as the Factor of Creating Place Marketing of Bosnia and Herzegovina Aimed at Attracting Foreign Direct Investment

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ABSTRACT

The paper analyzes the experiences of foreign investors in terms of their business activities in Bosnia and Herzegovina. The aim of the research is to identify the experiences of foreign investors in Bosnia and Herzegovina so as to contribute to the creation of place marketing of Bosnia and Herzegovina as the investment destination. The paper briefly highlights the importance of foreign direct investment for the economic growth and development of the countries recipients of capital and the role of place marketing as the factor in attracting foreign direct investment. The research results indicate that the most frequent motives for foreign investors' decisions to invest in Bosnia and Herzegovina are related to production input, labor force, market attractiveness, and state's stimulus measures. Foreign investors active in Bosnia and Herzegovina rate the business environment as insufficiently attractive for foreign investors. In addition, the research results indicate that these investors are on average satisfied with the business results they achieved.

Introduction

Contemporary literature as well as business practice often mention foreign direct investment (FDI) and its importance for economic growth and development. Many countries (especially the developing ones) characteristically experience, among other things, the lack of financial resources, technologies, and know-how necessary for growth and development. These resources can be provided by FDI, which is why many countries see it as an important source of their economic growth and development. This is the reason why tough competition exists among the countries in terms of their creating favorable business environment aimed at attracting foreign investors. In order to win their position on the investment market, the governments of these countries aim their activities towards adapting their economic and legal environment to the requests of foreign investors on the one hand, and towards the promotion of their investment potential on the other.

When the activities in terms of country's promoting investment potential are considered, different approaches are evident. The emphasis is dominantly placed on the availability of natural resources, lower labor force cost, simplified legal procedures, tax, customs and other benefits, etc. The application of place marketing enables the integrated approach in presenting and positioning of a country (or one of its parts – region, city, etc.) in the international investment market as a desirable and attractive destination for investment

realization. In this way, potential investors are offered an integral "package of factors" stimulating investment at a specific, narrow or broad, geographic location.

The paper attempts to present the importance of specific motives for investors while they make decisions to invest into Bosnia and Herzegovina (BiH), the assessment of BiH business environment from the perspective of foreign investors, and their satisfaction by business results in BiH. Hence, the focus is on the presentation of experiences of foreign investors active in BiH and the possibilities for their experiences to be used as a factor in developing place marketing aimed at positioning BiH as a favorable destination in the international investment market.

Literature Overview

Importance of FDI for economic growth and development of the countries recipients of the capital

Many authors have for a long time devoted their attention to the analysis of FDI influence of development performances of the countries that receive foreign capital. The governments of many countries, especially the developing ones, take steps in adapting their business environment in order to encourage foreign investors to select their country as the investment target. This is often made by providing numerous incentives for foreign investors. Frequently, this results in criticism made by domestic investors, particularly under the conditions when such incentives are not made available to domestic investors. This is especially evident in the developing countries where domestic investment is not sufficient to prompt the desired economic growth and development.

The importance of FDI for the economic growth and development of capital recipient countries among other things lies in the fact that FDI does not include only the transfer of financial resources into the country but also the transfer of technology and know-how (primarily organizational and marketing know-how). This way, the improvement of market competitiveness of the companies that receive foreign capital also improves the performances of the entire country's economy.

Demonstrated technologies and managerial and marketing know-how are the resources particularly unavailable in developing countries. When the data are analyzed on the amount of savings deposits at banks in many developing countries, it is evident that domestic savings can be seen as an important financial potential for investment. However, such a potential is not used as one of the restrictive factors is the lack of managerial and marketing know-how in the field of internationalizing the business of domestic companies. The additional negative consequence is the fact that the increase in savings deposits, evident for a long time, along with the unequal distribution of income, significantly reduces the demand on the final consumption market. This is the factor resulting in the reproduction cycle within the national economy to unfold at lower growth rates.

Innovative business solutions with market competitiveness on the international market are an essential factor of more intensive economic growth and development. Creating such solutions on a larger scale is possible in developing countries only with FDI as domestic investment potential of these countries is mainly insufficient. Besides, more intensive economic growth and development, prompted by FDI, might create the prerequisites for a more complete usage of domestic investment potential and the direction of savings deposits into the investment cycle through the appropriate forms of business cooperation.

FDI lead to increased employment and average gross salary, which results in the increase in economic growth. The World Bank data indicate that the empirical tests of inter-dependence of foreign investment, capital accumulation and economic growth are encouraging but the same positive effects have not been reached in all parts of the world. The most important thing is that foreign investment affects the increase in aggregate domestic investment. It was felt earlier that foreign investment push domestic investment out, thus overtaking the major share of the market. However, the World Bank research showed that foreign investment has a significant and positive impact on domestic investment¹. The effect of incoming foreign investment on foreign trade and employment depends on whether there is the prevalence of

¹ World Bank, Global Development Finance, 2006, p. 143 and 159

complementarity or substitution of FDI and export or the prevalence of complementarity or substitution of FDI and import².

Potential benefits which the recipient country may accomplish by FDI realization may be seen from the macro and micro aspects. When observed from the macro perspective, FDI benefits are primarily reflected in: improvement of country's trade balance and balance of payments, faster and more efficient inclusion of domestic economy on the world markets, improved supply of the domestic market, increased employment, etc. When observed from the micro perspective, recipient companies reap the following benefits: faster and cost-effective provision of modern technology, conditions to expand their business cooperation with foreign partners and on third markets, introduction of modern organization of work, and acquisition of knowledge in the field of market research³.

It is important to mention that many authors in their studies state that FDI influx may reduce domestic savings and investment in recipient countries and consequently cause slower economic growth⁴. Such criticism is mainly explained by the fact that often FDI does not transform into real investment. In addition, the criticism towards the governments for focusing on FDI might indicate a set of negative consequences for recipient countries:

- the problem of distributing the profit earned by foreign investors, partly created by using the host country resources, as the entire or the largest part of the newly created profit can be transferred abroad,
- the usage of the transfer prices system by foreign investors for allocating the newly created value into investor's branches abroad, which reduces the basis for collecting public revenues (income tax for example),
- the usage of home labor force with lower pays, which can consequently affect the development of final consumption market,
- foreign investors' insisting on the implementation of lower environmental standards in recipient countries than those implemented in developed countries or investors' home countries,
- increased influence of foreign economic subjects in making decisions on development goals and economic policies of recipient countries, i.e. lower economic sovereignty in the case of recipient country becoming too dependent on foreign investors,
- the creation of unfair competition in the case of foreign investors being provided with the benefits or incentives which domestic investors cannot use.

The justifiable criticism regarding potential negative consequences of FDI realization should not be neglected. Attention should be paid on the following:

- when realizing every individual foreign investment, one needs to assess its positive and negative effects and to establish whether the investment is justified or acceptable for the recipient,
- provided that the business cooperation agreement used for the realization of a specific foreign investment is made obeying the business ethics, potential negative consequences may be minimized,
- efficient monitoring is important in the realization of foreign and domestic investment, which should be carried by the regulatory bodies of the recipient country and serve as a guarantee for the functioning of the market framework under which all potential negative consequences shall be eliminated.

It is important to bear in mind that if FDI is realized in the sectors in which domestic companies are successful, on the one hand, FDI influx might result in increased competition and pushing domestic companies off the given market segment. On the other hand, if FDI influx is realized in the sectors in which domestic investment is not so widely present, growth and development of the host country might appear.

² Konings, J., *The Effect of Foreign Direct Investment on Domestic Firms: Evidence from Firm Level Panel in Emerging Economies*, LICOS Discussion Paper no. 86, 1999, p. 27.

³ Hadžović, M., *Direktna strana ulaganja*, Slovo, Mostar, 2002, p. 57

⁴ Sarajčić, S., *Strane direktne investicije i tranzicija*, DES, Sarajevo, 2006, p. 221.

Hence, it is important to make a systematic approach to creating the policy of attracting FDI so as to identify potential investors whose business goals are compatible to the economic goals of the country, on the one hand, and to allocate the total investment capital (domestic and foreign) in a way which would enable the maximization of macroeconomic effects on the other hand. The prerequisite for this is the strategy of country's economic development and the strategy of attracting FDI⁵.

Place marketing as a factor in attracting FDI

The question arises in terms of importance of the concept of place marketing for attracting FDI. Place marketing is the concept of marketing adapted to the characteristics of the location as the product one wants to position on a specific market segment. In other words, the application of place marketing enables differentiating and positioning certain location on the target markets in order to achieve the desired goals for the given destination. Rainisto⁶ points out the views of some authors (Kotler et al.) that place marketing implies the creation of the ambience which would satisfy the needs of citizens and companies and fulfill the expectations of investors and visitors.

As previously stated, there is a significant competition among the countries in attracting foreign investors. This is why it is important for the countries to implement place marketing in their positioning on the foreign investment market so as to differentiate from the competitor countries and present themselves as destinations favorable for foreign investors.

Place marketing includes the following four basic components:⁷

- creating and realizing marketing mix of services and functions in a community,
- establishing and creating industrial and tourist attractions for attracting new investors and business to the target territory,
- providing services in an efficient and available way,
- promoting the values of location and image so that they enable market differentiation from their competitors (other cities, regions, states) and that all the potential users are fully aware of the values and risks characterizing their location, region or nation.

What is usually attempted to achieve is for locations to have a set of attributes through which they want to attract the attention of foreign investors. A set of basic conditions need to be satisfied, which foreign investors find as a precondition for even thinking about certain location. This set primarily includes:⁸

- political and economic stability – long-term oriented investment, the one providing the highest benefit for the location is never realized in the countries that are politically or economically unstable;
- regulated business environment – without the appropriate business environment there is definitely no increased influx of foreign investment. A successful program of attracting foreign investment requires undisturbed business activities of companies, without extensive and complicated administration and additional business costs;
- infrastructure – open market with established market institutions providing free market competition, developed legal infrastructure with good laws, encouraging measures, anti-corruption measures and rule of law, transport infrastructure, telecommunications and security infrastructure.

⁵ Čivić, B., Muratović, A., Petrović, A., *Ograničenja ekonomsko-pravnog ambijenta u Bosni i Hercegovini za realizaciju stranih direktnih investicija*, Zbornik radova Pravnog fakulteta u Tuzli, Year III, Number 1, 2017, p7
⁶Rainisto, S. K., *Success factors of place marketing: A study of place marketing in Northern Europe and the United States*, Helsinki University of Technology, 2003, p. 11.

⁷Kotler, P., Haider, D. H., Irving, R., *Marketing Places: Attracting Investment, Industry and Tourism to Cities State and Nations*, The Free Press, New York, 1993, p. 18.

⁸ Graham, E.G., *Foreign Direct Investment in the World Economy*, IMF, Working Paper 59, 1995, Moran, T.H., *Foreign Direct Investment and Development*, Institute for International Economics, Washington, 1996, quoted in: Paliaga, M., Strunje, Ž., *Uloga urbanog marketinga u funkciji privlačenja direktnih stranih ulaganja u hrvatskim gradovima*, *Ekonomski misao i praksa*, no. 1, June 2011, p. 45.

In order to make certain location attractive for investment, the necessary measures need to be taken for the development of business environment that would be stimulating for foreign investors. The most frequent measures undertaken by state governments aimed at encouraging foreign investment are divided into three groups of incentives:⁹

- fiscal incentives,
- financial incentives, and
- other types of incentives.

Investor's decision on the selection of the location is a complicated process requiring the knowledge of a large number of information, their critical assessment, and the precise evaluation of the available options. Bearing in mind that certain locations are largely different by their cultural, social, political, legal, economic, demographic, technological, natural, and other characteristics, we can undoubtedly talk about the so called complex behavior of investors.¹⁰ Investor's behavior in terms of selecting the location for investment shall primarily depend on the size of the market in which they invest, potential market, and investment climate (business ambiance) on that specific market.¹¹ There is a certain number of factors to be considered while selecting investment location, and they include¹²:

- legal and regulatory factors,
- human resources,
- infrastructural factors,
- market factors,
- political and government influence,
- factors affecting profit retention, and
- economic factors.

Attributes that are interesting for foreign investors and encourage them to decide on doing business in a certain region are treated depending on investors' primary motives. Table 1 present the link between foreign investors' motives and host country attributes important to investors while making decisions on the choice of location to which they would invest.

Table 1: Investment motives and host country attributes interesting to foreign investors

| Investment motives | Host country attributes interesting for investors |
|------------------------------|--|
| Resources or property | - Raw materials and primary products |
| Markets | - Market size and per capita income, - Market growth, - Access to regional and third countries markets, - Preferences of customers, specific to the observed country, - Proximity of strategic clients, - Market structure. |
| Efficiency | - Low-cost labor force, - Qualified staff, - Cost of other inputs, - Membership in the regional integration appropriate for the agreement on the establishment of regional corporate network. |
| Strategic property | - Created property based on technology or innovations, - Created property in the form of individuals, companies, industrial clusters, etc. - Physical infrastructure (roads, ports, airports, electrical and telecommunications network) |

Source: USAID, 2007, p. 11, quoted in Rakita, B., Šipragić, M., *Marketing lokacije u funkciji privlačenja resursa*, SEMA, Marketing no. 41. Belgrade, 2010, p. 224.

⁹ Bilas, V., Franc, S., *Uloga inozemnih izravnih ulaganja i načini poticanja*, Serija članaka u nastajanju, Ekonomski fakultet Zagreb, Article no. 06-13, 2006, p. 6.

¹⁰Rakita, B., Šipragić, M., *Marketing lokacije u funkciji privlačenja resursa*, SEMA, Beograd, Marketing, no. 41., 2010, p. 223.

¹¹ Hornberg, K., Battat, J., Kusek, P., *Attracting FDI - How Much Does Investment Climate Matter?* The World Bank Group, Financial and Private Sector Development Vice President, August, 2011, p. 2-3.

¹² Cavusgil, S. T., Knight, G., Riesenberger, J. R., *International Business*, Prantice Hall, New Jersey, 2012, p. 407.

The application of place marketing is used in the identification of potential investors whose investment goals match those of the host country. It is important in this process to develop a set of activities by which investment potentials of certain location will be presented to potential investors such that investors would decide to realize their investment at a given location.

Research Methodology

The research problem in this paper is to identify the experiences of foreign investors in order to improve the positioning of BiH as investment destination. The research questions postulated in this paper are:

- What are the motives of foreign investors to invest in BiH and how important these motives are to them?
- How foreign investors active in BiH assess its business environment?
- To what extent are foreign investors active in BiH satisfied with their business results?

The aim of the research is to define the experiences of foreign investors in BiH and the possibility for using their experiences in the development of place marketing of BiH and its presentation as a favorable investment destination.

The research hypothesis postulated in the paper is: *experiences of foreign investors in BiH are important knowledge in creating place marketing of BiH as the factor in attracting foreign investors.*

The data were collected through a primary research. We used the examination method, written examination technique, and the questionnaire as the form for collecting data. The participants were top managers in the companies' active in the real sector on the territory of BiH with the share of foreign ownership in their capital. The study was conducted in two periods: in 2013 and at the beginning of 2018, which enabled the comparative analysis of the data collected.

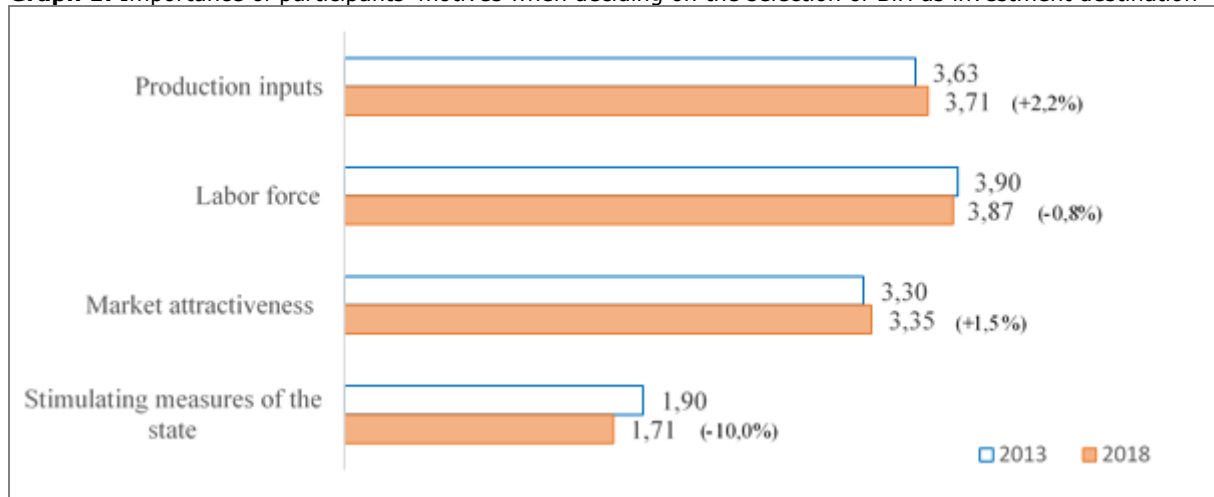
Result Analysis and Discussion

In order for the activities in attracting FDI to be successful, it is important to understand the motives of foreign investors to invest in a specific country. The motives of foreign investors (included in this study) for investment in BiH are dominantly linked to the following four elements:

- production inputs (availability and acceptable price),
- labor force (highly qualified with lower labor costs),
- market attractiveness (domestic markets and privileged trade arrangements BiH has with other countries), and
- stimulating measures of the state.

The importance of these motives for the participants is given in Graph 1. The importance of the motives was assessed by a 1 (extremely low importance) to 5 (extremely high importance) scale. It is evident that for the first three motives there was no significant change in the average assessment of importance for the participants in 2018 when compared to 2013. The average grade of importance of the motives given in 2018 is in the interval 3.35 to 3.87. As the results show, the average grade of the importance of production input increased by 2.2% for the participants in 2018 when compared to those in 2013. The average grade for labor force as a motive for the participants in 2018 is by 0.8% lower when compared to the study conducted 5 years ago.

Graph 1: Importance of participants' motives when deciding on the selection of BiH as investment destination



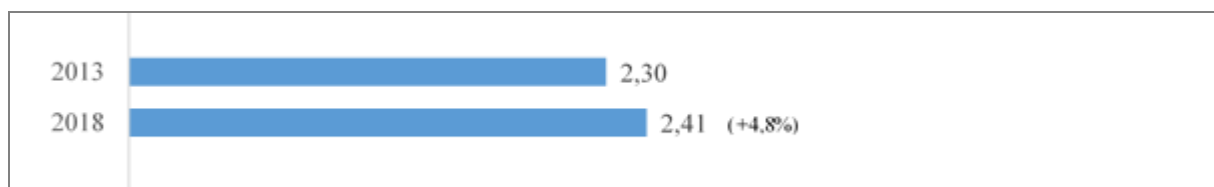
Source: Authors' research

What is important to mention here is that there is no factor that would be extremely important in motivating the participants to invest in BiH. This may be the limitation for positioning BiH as the investment destination, as we need to identify the elements by which this country should be extremely important to investors and consequently differentiate in comparison to competitor countries or investment destinations.

In order to successfully position BiH as a favorable and attractive investment destination, we need to start from the idea about how our country is seen by foreign investors operating in BiH. If their experiences are positive, the fact can certainly be used as a significant element of promotion within place marketing and successful positioning of BiH as investment destination. If the opposite is true, we need to take steps and perform activities for removing the causes that contribute to the creation of investors' negative experiences with the appropriate marketing communication towards potential investors, so as to minimize the potential negative effects.

Graph 2 shows summarized average grades of attractiveness of the investment climate in BiH. The grades are given on a scale from 1 (extremely negative/unfavorable investment climate) to 5 (extremely positive/favorable investment climate). The foreign investors that participated in the study in 2018 were slightly more satisfied by the investment climate in BiH than those in 2013, but the total average grade is still rather low, 2.41. The results indicate that in the period 2013-2018 the business environment was not significantly improved, as seen from the perspective of foreign investors. The research results show that another restrictive factor in positioning BiH as an attractive investment destination might be the former experiences of foreign investors.

Graph 2: Assessment of business ambience in BiH from the perspective of foreign investors

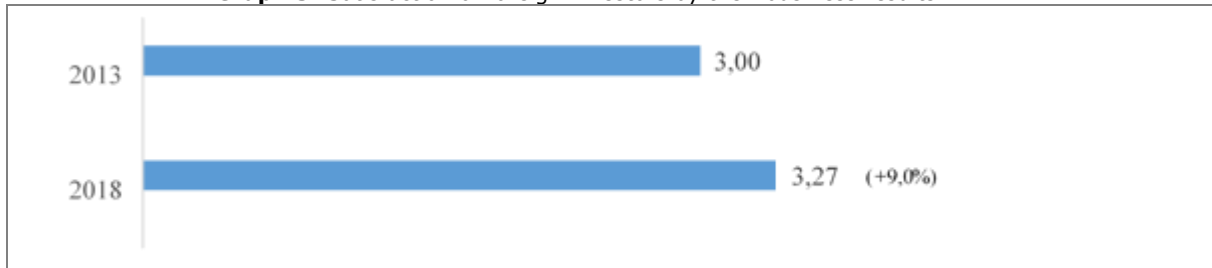


Source: Authors' research

Although the participants perceive that the investment ambience might be much better, it is important to examine to what extent the participants are satisfied by their business results in BiH. The average grades of participants' satisfaction (at a scale from 1 – extremely dissatisfied to 5 – extremely satisfied) by their business results in BiH are given in Graph 3. The foreign investors examined in 2018 were slightly more satisfied with their business results (the average grade 3.27) compared to those that participated in the research in 2013

(the average grade 3.0). However, as the results show, generally speaking, the participants are not particularly satisfied with their business results.

Graph 3: Satisfaction of foreign investors by their business results in BiH



Source: Authors' research

Comparing the data in graphs 2 and 3, we can conclude that regarding the business ambience in which they realize their investment, the participants are partially satisfied with their results, which is largely encouraging bearing in mind the conditions in which they operate. Besides, the following facts may be used as the elements for creating place marketing and positioning BiH as investment destination:

- investment climate, as seen from the perspective of foreign investors, is gradually improving. The processes are slow but improvements exist (Graph 2);
- foreign investors show partial satisfaction with their business results, with the gradual improvement of the satisfaction level in the observed period (Graph 3);
- the motives which the participants had when they decided to invest in BiH mainly remained at the same level of significance. This may be an indicator of continuity of significance for the motives that foreign investors had when they came to BiH, which can serve as the good basis for keeping these investors in the country.

Certainly, these results also show significant limitations that BiH has in its positioning as a favorable investment destination. These limitations can be seen in the following:

- as the research results show that there are no factors identified as particularly significant motives for foreign investors, it is necessary to examine and identify the factors by which BiH would be recognizable on the investment market and use them to shape promotional and other activities within the development of place marketing. Investors' requests are indeed heterogeneous, regarding the nature of their investment and they are usually individual for every single investor. However, it is important to emphasize the factors that might particularly motivate foreign investors to opt for investment in BiH;
- as foreign investors give low grades for the attractiveness of the business ambience for investment, it is necessary to further examine the causes for such a situation. It is particularly important that following such analysis, credible measures are taken for removing these causes, which would positively affect place marketing;
- the participants are partially satisfied with the results of their business activities in BiH, which can largely be the consequence of system limitations in the business environment. It is therefore important to examine whether and to what extent their business results were affected by market relations and investors' competitiveness or by system solutions within the economic and legal as well as political environment. If the system solutions within the economic and legal as well as political environment are identified as being significant limitations for the realization of better business results of investors, credible measures need to be taken for the improvement of these solutions.

BiH has so far taken a series of activities in order to present itself as a favorable investment destination. BiH is the member of the *Multilateral Investment Guarantee Agency (MIGA)* and the signatory to the *Convention on the Settlement of Investment Disputes between States and Nationals of Other States*. In addition, the state Foreign Investment Promotion Agency has been established. A special *Law on the Policy of Foreign Direct Investment in Bosnia and Herzegovina* was adopted, in efforts to regulate the issue of support to foreign investment. However, it seems that the past activities did not yield the expected results as the perception of the business ambience in BiH by foreign investors is not at a high level.

Conclusions

Summary of the findings: Place marketing may be a significant determinant in attracting FDI. Indeed, appropriate preconditions need to exist so as the concept of place marketing to be appropriately implemented or to result in the realization of the objectives set. The assumptions for a successful application of the concept of place marketing in attracting FDI are reflected in: a) creating the recognizable characteristics of the location that would enable the location to be differentiated in comparison to its competitors while at the same time these characteristics need to be relevant for foreign investors, b) creating the measures with the implementation plan so as to remove the identified drawbacks of the location and make the location more attractive to foreign investors, c) constantly developing communication with foreign investors so as to fully and timely inform them on investment potentials of the given location. A significant affirmative argument in communicating with potential investors may be the presentation of positive experiences of the existing investors and their recommendations. It is important to mention that the application of place marketing aimed at attracting FDI is not an ad hoc activity. It requires constant systematic work on the following: a) identification of trends on investment markets and the needs of individual investors in terms of the development of their investment, b) improvement of the business ambiance at the location, c) creation of the network between the location and other complementary locations, and d) communication with the existing and potential foreign investors.

The research goal was reached – the experiences of foreign investors in BiH have been identified and the elements have been suggested that might be used in creating place marketing and positioning BiH as an investment destination. Besides, certain limitations have been identified that BiH has in its positioning as a favorable investment destination. That is why the research hypothesis may be accepted which states that foreign investors' experiences are important knowledge for creating place marketing of BiH as the factor in attracting foreign investors. In other words, the experiences of foreign investors related to the motives they had when opting for investment into BiH may be used through place marketing as the affirmative element in keeping the existing foreign investors and attracting the new ones. On the other hand, the experiences of foreign investors related to their satisfaction with the business ambiance and business results might be used as the guidelines for the improvement of place marketing of BiH and attracting new foreign investors.

Managerial implications/management knowledge: The foreign investors that participated in their research indicate that their motives for investing in BiH are mainly related to: the availability and acceptable price of production inputs, labor force, and privileged trade agreements that BiH has with other countries, and stimulating measures of the state. These factors have the average significance for the participants and they mainly characterize the countries that are usually seen as our competitors in attracting FDI. This is a great challenge for the authorities in BiH as they should create a set of characteristics that would differentiate this country from other competitors in attracting foreign investors. Naturally, these characteristics need to be those that are also important to potential investors. Another challenge for the development of place marketing aimed at positioning BiH as an attractive investment destination is the fact that the existing investors do not give high grades for the attractiveness of the business ambiance in the country. For example, in 2013, the participants graded the business ambiance in BiH with 2.30 on average, while those in 2018 graded it with 2.41 on average. The authorities in BiH need to create an urgent set of measures and the plan for their realization so as to improve the opinion that foreign investors have about the business climate in the country.

It is also necessary to speed up the process of Euro-Atlantic integrations in order to stabilize the political environment in the country and create the feeling of security among foreign investors. This trend would encourage various level of authority (entities, cantons, and district) to act more efficiently in harmonizing the measures of economic policy and consequently reduce the negative consequences of high decentralization and reaching consensus among these levels of authority, which affect the economic development.

Research limitations: The research results presented are seen as an important input for decision makers in BiH in terms of development of place marketing so as to improve the influx

of FDI. However, the research also has certain limitations, related to the analysis of the causes of low satisfaction of the participants with the business ambiance. The causes for such a situation need to be identified in detail, so as to create the appropriate measures for improving place marketing. Another limitation is related to the fact that the research did not analyze the ways in which foreign investors make their decisions to choose the investment destination.

Recommendation for further research: Future research should focus on two fields. First, the research into the image of BiH on the investment market (among potential investors) would identify the positive and negative aspects of the perception that potential investors have about BiH as an investment destination. Second, the research into the process foreign investors' decision making regarding their selection of the investment location might identify the basic and additional criteria which investors use to select the location. In this way, we would get significant inputs for the development of place location of BiH aimed at its successful positioning among foreign investors.

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