Varazdin Development and Entrepreneurship Agency and
CIRU – Governance Research and Development Centre
in cooperation with
University of Dubrovnik

Economic and Social Development

110th International Scientific Conference on Economic and Social Development -
"ESG Evolution: Charting the Path to Responsible Governance" (XII. OFEL)

Book of Proceedings

Editors:
Darko Tipuric, Antonija Buljan

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CENTRAL BANK DIGITAL CURRENCY (CBDC) AND DIGITAL EURO

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ABSTRACT

Present day addiction to modern technologies doesn't only define modern society itself but also its daily lifestyle. Modern technology and the internet are part of almost all daily activities; from basic communication and establishing personal and business relationships, economic transactions, or data (information) storage. Internet and modern technologies have unquestionably raised the standard of living and made the economy, data processing and communication more efficient, while on the other hand, they have opened many questions regarding human rights, especially the right of privacy and personal freedoms, protection from unlawful surveillance, new forms of criminal activities and associations etc. One of the sectors that is likely to benefit most from digital transformation is the international trade and business itself. The choice of adequate financial instrument is also crucial and is closely related to the transaction costs. The main aim of this paper is to investigate and examine this new technology and its impacts on monetary policy and basic human rights by analysing new financial instrument - digital currency, and one of its emerging representatives: central bank digital currency (CBDC) - Digital Euro, that brings new payment method to the international trade and business, while also presents some new challenges for business, government (regulation, control and influence on human behaviour) consumers (privacy protection) and monetary policy.

Keywords: *Central Bank Digital Currency, CBDC, Digital Euro, Distributed Ledger Technology, European Central Bank*

1. INTRODUCTION

One of the sectors that is likely to benefit most from digital transformation inherent to modern society is the international trade and business itself. And what is the one of the most fundamental and important things in trade and business? Transaction! In the narrower sense: how to pay for the goods or services efficiently and safely and how much this transaction costs, in other words, transaction costs! The choice of financial instrument is also crucial for the trade and business and is closely related to the transaction costs. The main aim of this paper is to provide a general overview and to introduce that relatively "new" financial instrument. Digital currency itself and one of his developing representatives, Digital Euro, can bring very promising payment method, but certainly not without certain risks and challenges. What is the digital currency and how does it work? Which benefits can digital currency bring?

2. DIGITAL CURRENCY

Digital currency is kind of electronic money - electronic currency, digital cash (Rodeck, 2023), which is only available in the digital form[1]. User only needs to have a connection to the internet; some kind of hardware with appropriate software/application installed on it and he can easily use digital currency. Interpretation of the term "digital currency" is very broad, and definition includes a lot of representatives, such as virtual currencies (e.g., gaming currency developed by game developers, circulating in the game and which is subject to similar inflationary pressures like fiat currencies (Friedman, 2018; Holm & Mäkinen, 2018)), crypto – asset, such as cryptocurrencies (e.g., Bitcoin, Ethereum, etc) or digital currency issued by the central bank (CBDC). For the purposes of this paper, we narrow down the definition of digital currency. We only consider digital currency to be currency that can be used as actual electronic money, as a regular payment method in commerce. So, our new narrow definition doesn't include so called cryptocurrencies; Bitcoin, Ethereum, etc. These kinds of crypto assets cannot be considered as a regular payment method, as electronic cash, especially due to their high volatility. Above-mentioned cryptocurrencies are used for investment purposes rather than as money in commerce. Therefore, only so called can be considered as a digital currency/electronic money. Stablecoins are cryptocurrencies that are backed by national currencies (fiat currencies) and their volatility and fluctuation is much lower than bitcoins or other currencies, so they can be used in everyday transactions as "payment money". Another important question that needs to be answered is the difference between digital currency and electronic money in our current bank accounts. The main difference is that the official electronic money is kind of national currency, issued by private financial institutions, digital currency is not at all kind of national currency, for now. Electronic money can be easily converted to the cash, in the case of the digital currency, is not possible. Electronic money is also issued mainly by commercial banks and represents a debt to a specific commercial bank, on the other hand, digital currencies generally accomplish transfers without intermediaries (without banks), so called peer-to-peer (P2P) transactions (decentralized system) are well-known (e.g., cryptocurrencies). Digital currency could be centralized and decentralized. A typical centralized system is based on one main authority that distributes and manages currency (e.g., national central bank and fiat currencies, also gaming currencies) or any other data in general (e.g., only one data storage that stores subscriber data).On the other hand, the decentralized system works on the P2P principle, there is no main authority that stores and manages the data, but the system is created and/or maintained between users and managed by users (e.g., cryptocurrencies).

2.1. Central Bank Digital Currency - CBDC

Central Bank Digital Currency ("CBDC") has become a major topic for central banks around the world in recent years. At the time of writing this paper „130 countries, representing 98 percent of global GDP, are exploring a CBDC. In May 2020, only 35 countries were considering a CBDC. A new high of 64 countries are in an advanced phase of exploration (development, pilot, or launch). 19 of the G20 countries are now in the advanced stage of CBDC development. Of those, 9 countries are already in pilot. 11 countries have fully launched a digital currency. China's pilot, which currently reaches 260 million people, is being tested in over 200 scenarios, some of which include public transit, stimulus payments and e-commerce. The European Central Bank is on track to begin its pilot for the digital euro. Over 20 other countries will take steps towards piloting their CBDCs in 2023. Australia, Thailand and Russia intend to continue pilot testing. India and Brazil plan to launch in 2024. The US is, however, moving forward on a wholesale (bank-to-bank) CBDC. Since Russia's invasion of Ukraine and the G7 sanctions response, wholesale CBDC developments have doubled.

[1] Similar in Ozili, 2022, p. 3.

There are currently 12 cross-border wholesale CBDC projects.“ (Atlantic Council, 2023). That path of evolution of CBDC could be beneficial for two main reasons: “

1) Cross-border payments are currently slow and inefficient. Pilot projects have shown that wholesale payments with CBDCs can generate substantial time and cost savings.
2) Any two central banks that have operational wholesale CBDCs could settle transactions between themselves. This would be very different from the current system, as most settlements today are done via the dollar (and then the euro) infrastructure and use correspondent banks.” (Demertzis & Martins, 2023).

CBDC is a form of digital currency that is directly guaranteed by a central bank. Digital currency creates a direct claim on the central bank, just as cash does. The main difference between digital currency and cash is its form, which is purely digital. One of the reasons for the development of the concept of digital currencies is the rapid development of cryptocurrencies. CBDC and cryptocurrencies agree on certain issues, but also fundamentally diverge. The concept of digital currency is based on its inclusion among legal tender - money and its easy convertibility with other forms of money. Furthermore, CBDC may also differ from cryptocurrencies in the technology platform used. A CBDC digital currency may not fundamentally use a distributed decentralised database (DLT, typically blockchain in the case of cryptocurrencies), which is characterised by its decentralised nature and lack of central authority. For CBDC, we can expect a central authority in the form of a central bank. The concept of CBDC is primarily to bring a stable, cybersecure, fast, cheap and easily accessible version of payment primarily in the retail market to as many economic agents in the market as possible. CBDCs could also lead to cheaper cross-border transactions (virtually fee-free transfer), as opposed to electronic transactions under the auspices of commercial banks (transfer of electronic money deposited on bank account with a commercial bank). CBDC also responds to the receding trend towards the use of cash. This trend is strongly manifested in some countries (e.g., Norway, Sweden) and CBDC can provide an adequate alternative to cash. (Demertzis & Martins, 2023). Central banks, especially in developing countries, also expect that CBDC can reduce financial exclusion (Castro Margaroli, 2022) in society through its easy accessibility and security. In some developing countries, it is sometimes difficult to distribute cash to all places in the country. There are also plans to introduce offline payments, so this important feature of cash would be transferred to the CBDC. On the other hand, mobile payments (payment systems/applications used on mobile phones) have already proven to help and improve that issue well, so CBDC is not the only nor the necessary answer: „Already there have been success stories such as Kenya’s adoption of mobile financial services. Using M-PESA, among others, the percentage of the population over 15 who used a formal financial service rose from 18.5% in 2006 to 74% in 2013. It was reported that access to M-PESA increased consumption levels, enabling an estimated 186,000 families (2% of Kenyan households) to move out of poverty.“ (Castro Margaroli, 2022). The implementation of payment through CBDC in the case of microtransactions, online and offline, without additional fees/costs for the parties included, would certainly increase financial inclusion, since for such payments of relatively small amounts, the level of KYC is relatively low; only a mobile phone number and/or email address is sufficient, while a digital ID, which is more and more associated with this type of financial business, is required for larger amounts.[2]

[2] See, for example, the case of Bahamas' Sand Dollar system (Sand dollar Key Specifications, 2023). „The currency is not anonymous, so users must go through standard bank-grade know your customer (KYC) processes. However, not everyone has a photo ID that’s needed for a bank account. So, a lower access tier only requires an email address or phone number, allowing balances of up to USD 500 and USD 1,500 in transactions per month. With full KYC, a person can hold up to USD 8,000 digitally. “ (The Paypers, 2021).

Based on the above, we can summarize the advantages of CBDC, these are:

- a digital form of legal tender money issued and controlled by standard monetary authority - the central bank,
- a stable and secure version of digital money,
- an easily accessible, cheap, and fast payment option,
- a potential alternative/substitute to cash, and
- a potential increase in financial inclusion, especially in developing countries.

Nevertheless, CBDC also brings some risks; One of these risks may be decrease of electronic money deposits in commercial banks, making loans more expensive. Banks may respond to this situation by introducing customer benefits within the banking sector (e.g., by increasing interest rates). This risk will also be a challenge for central banks. Central banks will undoubtedly have to regulate the attractiveness of CBDC appropriately to avoid financial instability and a crisis in the commercial banking sector. One option is to "cap" single transactions between accounts; another is to limit the daily transfer of digital currency between accounts, or to limit the amount of funds within an account (Česka národní banka, 2020). Furthermore "Central banks could also choose to use CBDCs to guarantee in full citizen's holdings (currently, deposits in commercial bank are only partially guaranteed), but this would trigger major changes in the financial system in terms of the role of commercial banks in intermediation and the role of fiat money. So far, central banks have not opted to go this way." (Demertzis & Martins, 2023). Another risk relates to less-democratic states where CBDC may become a more effective tool for monitoring and even punishing or rewarding certain groups of citizens (especially political dissidents) and invading their privacy under the pretext of protecting public order, leading responsible monetary policy and fighting crime. E.g., recently introduced China's CBDC which is also known as e-CNY (数字人民币, *shùzì rénmínbì*), DC/EP, or digital yuan. "China highlights fighting corruption, money laundering, illegal cash flows and tax avoidance as the ostensible benefits of using digital yuan. It also claims data from digital currency would help improve the money supply and support mechanisms for boosting economic recovery in the post-coronavirus era. According to Beijing, the new currency will be convenient, secure and accessible, including to citizens with low incomes who might not have bank accounts, and to those in rural areas, because the transmissions would not require Internet access. … China's central bank promises only "controllable anonymity," meaning digital yuan transactions are anonymous between users, but their private information is still known to the central bank. China, already nearly cashless, relies on private platforms such as Alipay and WeChat Pay for payments. So far, these platforms have operated without direct government oversight. With digital yuan, the CCP will have direct control over and access to the financial lives of individuals, without the need to strong-arm intermediary financial entities. In a digital-yuan-consumed society, the government easily could suspend the digital wallets of dissidents and human rights activists, for example." (Keram, 2021) This argument was also raised as a support for introduction of digital euro.[3] Also, according to Gladstein: "The end of cash and the insta-analysis of financial transactions enable surveillance, state control, and, eventually, social engineering on a scale never thought possible. ... When the government can take financial privileges away for posting the wrong word on social media, saying the wrong thing in a call to parents, or sending the wrong photo to relatives, individuals self-censor and exercise extreme caution.

[3] With increasingly digital payments, the ECB aims to anchor private money to public money. A second driver is a digital euro would also increase the strategic autonomy of Europe. While specific names were not mentioned, non-European payment systems like Visa and Mastercard currently dominate, which the ECB has frequently raised as an issue.", although they were quite efficient and functional. (Ledger Insights, 2022).

In this way, control over money can create a social chilling effect.“ (Gladstein, 2021).
China is a forerunner in the development of digital currency and has some advantages in early adoption of it. As Yang and Lin point out “Use of cash at the point of sale and the M0 to M2 ratio in China is already among the lowest globally. Even in a cashless environment, DC/EP will have attractive features relative to current fintech offerings including anonymity, financial inclusion, the ability to operate outside of wireless networks, and interconnectivity among different payment methods” (Yang & Linn, 2020). International financial system today rests on the American dollar (USD) which is the basis for the dollar settlement system through correspondent private banking institutions. Wide acceptance and introduction of CBDC could ease the path to gradual dedolarization of global economy; “Wholesale CBDCs would change this system. Central banks would have dedicated corridors (like the mBridges described above) for settlement directly between themselves. … This would mean more diversification of currency pairs, with increased liquidity for currency pairs that do not include the dollar. Also, more direct relationships between parties would lead to the de-risking of transactions.” (Demertzis & Martins, 2023). A major obstacle for most central banks currently is the lack of regulation of digital currencies on national and international level. An active participant in the field of digital currencies in Europe is the Swedish Riksbank. In 2017, they introduced the so-called e-krona (Sveriges Riksbank, 2023). That was a pilot project that lasted until February 2021 (Sveriges Riksbank 2023A). This digital currency uses, among other things, DLT technology (blockchain). Other active European players in the field of digital currencies are England (Bank of England), Norway (Norges Bank) and Switzerland. Among non-European countries, the Bahamas is at the forefront. The Bahamas has already introduced a digital currency called the Sand Dollar[4]. This is a universally accessible currency containing limits for a single transaction and for the maximum amount of funds in one account. The currency has been officially in circulation since October 2020 (Consultancy.org, 2021).

3. DIGITAL EURO

Digital euro looks like the most radical change in European monetary policy since the introduction of common currency. The concept and purpose of the digital euro is almost the same as that of other CBDCs. The very impetus leading to interest in the development of the digital euro was largely driven by the shift of a significant part of economic life to the internet due to the corona virus crisis. Interest in electronic commodities (typically cryptocurrencies) and electronic payment has grown rapidly in society. On the other hand, interest in banknotes has declined in some eurozone countries, while interest in a secure, digital, efficient (in terms of cross-border payments and transactional privacy) currency has increased. The first mention of the digital euro concept was in October 2020 in the ECB's Report on digital euro (ECB 2020). This Report dealt mainly with the reasons for the introduction of the digital euro, the possible future implementation of a digital currency, privacy issues (storage and security of personal data, user authentication and identification), offline (transaction anonymity is possible in offline payments, but has to be limited) and online payments, connection between end-user solution and back – end solution (protection against the risk of unwarranted creation of digital euro units without authorisation – “double spending problem”), possible technological (decentralisation system, centralisation system, connection between current payment system TIPS and DLT, involvement of commercial banks: even become nodes?) and legal solutions (legal background for issuance and distribution of digital euro, AML regulation, private law issues etc.).

[4]„For now, the Bahamas has two levels of enrolment available to individuals: tier one users are not required to present any form of ID or link a bank account to open their Sand Dollar digital wallet, but they are only allowed to hold up to $500 at any given time in their e-wallet and are limited to a monthly transaction volume of $1,500. Tier two users are required to produce a government-issued ID and can link a bank account to their wallets. In exchange for the added layer of scrutiny, they can hold up to $8,000 in e-money with a monthly transaction limit of $10,000.“ (Boussidan, 2021).

In parallel, experimental work has been underway since September 2020 under the auspices of the European Central Bank and the National Central Banks members of Eurosystem, primarily to assess the technological and legal aspects of the digital euro (ECB 2021). The expert teams mainly focused on the following areas:

a) privacy and anti-money laundering (AML) (e.g., pseudonym payments for end-users – levels of anonymity, programmability etc),
b) limits on digital euro in circulation (e.g., limitation of amounts and transactions, limitations on offline payments, digital wallet etc., the consequences of transfer of digitalized money from private banking sector to public),
c) end – user access (possible devices, use of NFC, Bluetooth, identification and authentication etc.)
d) digital euro ledger (the use of decentralised systems and the current payment system, energy consumption and potential ecological footprint (ECB 2021).

Another interesting output on the digital euro is the report on the public consultation on a digital euro (ECB 2021A). Over 8,000 respondents took part in this public consultation and the results are interesting. Based on these results, we can theoretically deduce which core values EU citizens value most and which they want to protect most, but the statistics can be a bit misleading because most respondents are from Germany, France, and Italy, so there is not a proper "representative element" of each country in this report. Among the most important topics, respondents ranked:

a) privacy (up to 41% of respondents cited privacy as their first choice),
b) security (18%),
c) the ability to pay with the digital euro across the euro area (11%),
d) minimum payment fees (9%) and
e) the 'offline' usability of the digital euro (8%).

These results show that respondents value privacy the most. This means that privacy in transactions ("anonymous" payments but not only) is still very important to EU citizens and that this feature of cash needs to be implemented in digital currency.

3.1. Possible advantages and disadvantages of Digital Euro

The benefits of the digital euro are very similar to those of CBDC in general. One advantage could be no additional costs for cross-border transactions. This advantage may attract new investors and open the door to new businesses or local business who, until now, have not been able to expand their business across borders due to transaction costs. But certainly (and this could be a downside to this benefit), the ECB is likely to introduce limits on daily/monthly transactions or limit the amount of digital euros you can have in your digital wallet, suggested at 3000-4000 euros, not to make too much pressure on the private banking sector which will lose that amount, estimated between 1-1,5 trillion euros at the EU level (ECB 2022). These limitations can present a bit of disadvantage, because what's the use of such a small amount of money that can also be meet with 15-20 200 euro banknotes (or 6-8 500 euro banknotes which are slowly getting out of circulation, supposedly to prevent hoarding and unregistered cash flows), any place, any time, without using any additional technology. The other potential disadvantage could be the trade-off between money laundering and protection of privacy in transactions, which according to the public consultation is the most valued by EU citizens. The ECB therefore needs to address this issue. The digital euro is not presented as a comprehensive alternative to cash but should (for now) be just another payment method that will complement cash, and not replace it (approach of ECB). In our opinion, it is important to realise this point.

It means that EU citizens probably still have a lot of confidence in cash and want to use them and they still value its biggest advantage of cash - autonomy and anonymity of transactions. Therefore, there is no rush to develop the digital euro, no pressure from society, no great demand from citizens yet. Ideally, we could see the digital euro as early as 2026, but we must take into account that this is really only a preliminary estimate. Unexpected complications may arise during the development of the European Union's digital currency, which could prolong the whole process of developing the digital euro by several years. One of the most important, but still unsolved issues is offline functionality, together with strong software and hardware security; "A Bank of International Settlements (BIS) study found that 49% of central banks consider offline payments with retail CBDC vital. In comparison, another 49% deemed it to be advantageous". (Castro Margaroli, 2023).

4. CONCLUSION

Legally, money is everything that law defines as such. In real life, since the money has lost its intrinsic value held in matter from which it was made, the key component is trust. CBDC is only as strong and credible as the central bank that issues it. For developing countries, this payment method can bring increased financial inclusion, lower transaction costs, and thus create a more business-friendly environment. On the other hand, we also need to keep a close eye on how the digital currency project is taken up by less democratic countries, where dystopian idea of total control and restrictions in every aspect of human life by merging the digital ID[5], some kind of social credit system, surveillance through various electronic means and applications as well as CBDC, inside *15 minutes cities*, becomes possible. Even in developed democracies the right to privacy and freedom to transact freely with legally earned money should be protected by adequate legal and even constitutional provisions (the initiatives to amend the Constitution of Austria, Slovakia, Slovenia, Switzerland etc.)[6] [7] defining the right to use cash and duty to accept if for all public and private financial transactions.[8] Those issues can become relevant especially during emergency events in which electrical grid is damaged, so it is impossible to use any means of payment that requires electricity, or all communications and data storage systems are damaged and /or destroyed by EMP (electromagnetic pulse, be it by the act of men through advanced weapons and warfare, or by the act of nature – by solar eruptions) (Owen, 2023), as well as for the disabled persons who cannot use smartphone applications. The main issues with the digital euro, currently advertised as only an additional means of payment, beside already existing cash and without the intention to replace it, are undoubtedly: privacy (preserving transactional privacy, data retention), security, the involvement of commercial banks (which is closely linked to the combination of decentralised technology with the centralised technology currently in use) as well as transition of portion of monetary transaction from private to public banking sector, solving the problem of offline and online payments, programmability and surveillance (presently not enabled) as well as smooth introduction of the digital euro into the monetary circulation.

[5] "Ethiopia to make digital ID obligatory for banking operations". Biometrics Update.com, 2023)

[6] „The right to pay for the purchase of goods and the provision of services in cash will be included in the Slovak Constitution, as the parliament definitively approved a draft constitutional law to this effect..." (Antalik, 2023). Also, over 530000 of 100000 required voters already demanded public referendum on protecting the use of cash by Austrian constitution (Remix News, 2023). Having collected the required amount od signatures, Switzerland is also planning to have a referendum about preserving the cash, with the support of Swiss federal government. (Protos, 2023).

[7] „Therefore, on 12 July 2023, an initiative by voters was submitted to the National Assembly of the Republic of Slovenia to submit a proposal to initiate the procedure for amending the Constitution of the Republic of Slovenia and entering cash into the Constitution. The proposal was adopted and the President of the National Assembly announced a time slot for collecting signatures from 1 September to 30 October 2023. You can submit a signature at your administrative unit and 30,000 must be collected." (Jurgec, 2023)

[8] Erich Kirchler, a specialist in economic psychology, says in Austria and Germany, citizens are aware of the dangers of an overmighty state from their World War II experience. "In that case the efficiency of state institutions becomes dangerous". (EURACTIV, 2019).

The involvement of existing, old fashioned financial intermediaries, commercial banks, as the distributors and overseers of CBDC, definitely is not a shield against their inefficiency, possible failure and protection of confidentiality of financial transactions data, nor will they promote greater financial inclusion, since they have already failed on those fields, from hackers breaching into their systems to unbanking certain political dissidents and/or freezing their accounts[9] even in developed democracies. Of course, there are other questions that will need to be answered in the future. What would the exchange of individual CBDCs look like? At what exchange rate would a given digital currency be exchanged in international payments and settlements, and what would that mean for commercial banks and exchanges? The cash will, probably, be phased out, when its use drops below certain threshold that monetary authority deems insufficient to support. On the other hand, the unsuccessful attempt of introducing CBDC in Nigeria shows us that it cannot be implemented if majority of general population is against it, if its exclusivity is forced by unreasonable government/central bank mandates and if functioning physical and institutional infrastructure is lacking (Fijor, 2023). If we want to preserve cash, together with appropriate legal provisions, we should use it even more often in our everyday transactions, to keep it alive.

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MARINA AND DESTINATION IN CONDITIONS OF SOCIALLY RESPONSIBLE BUSINESS ACTIVITIES

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ABSTRACT

The need for development is constantly present in all social and economic areas. Furthermore, the evolution of thinking focused on achieving better results is continuously examining for and finding new solutions, and in the process, the logic changes and develops. The ancient idea "it cannot be good for me if it is not good for my neighbour" in the sustainable business community has developed a new form known as a socially responsible business. This is not always about business, but also about the wise action of the leadership of the local community, which supports the sustainable development of the environment and creates continuity of cooperation and development. Nautical tourism is extremely important for Croatia, especially marinas, which indirectly or directly influence the development of the destination where they are located. The main research question is: How and under what conditions do the marina's socially responsible operations and the local self-government's socially responsible activities occur on the Croatian coastline? This research will use a local community survey as well as standard statistical and computational methods for data analysis. Furthermore, the results are expected to show a greater degree of socially responsible behaviour related to the local community where the marinas are located. In other words, it can be concluded that the level of evolution of marinas, as high-quality subjects of nautical tourism and tourism in Croatia, significantly contributed to the development of ideas about the need for socially responsible business. In this way, the development of all entities of the local community that are located in the marina environment is encouraged.

Keywords: *high-quality marinas, local community, destination, socially responsible business, development*

1. INTRODUCTION

Socially responsible business, as well as socially responsible behaviour, appears in the scientific literature as a result of the development of thought based on sustainability. The basic goal of socially responsible business is to protect resources while meeting social and economic human needs. The awareness of social responsibility includes the breadth of social concern that develops among all subjects of the social community, from the individual to the company, then the local self-government and ultimately to the state. The basis of the idea of social responsibility, both in business and in behaviour, is contained in the postulate that investment in the environment is ultimately returned to the investor in an enlarged form. At the same time, a dynamic development takes place that takes place together with all the subjects of that process. The thought about the need and benefits of socially responsible business, as well as behaviour, is still not ubiquitous.

It depends on numerous factors, and above all on the development of social standards, both of the local community and the state, as well as of the mental awareness that is associated with education and knowledge. The level of development, when approaching research, should be viewed in its breadth, from the mental and economic development of the national economy to the development of individual industries. At the same time, the development of the local community within which an industry is being researched is important. Accordingly, this research will focus on socially responsible business and behaviour within the local community. The development of socially responsible business and behaviour in the circumstances of the marina as a local leader and local community will be explored. The fact that Croatian marinas, especially highly categorized ones, have taken on the role of local leaders in local communities, with the exception of cities, is a research task to analyse how socially responsible business and behaviour is carried out in that cooperation. The results of their relationship will also be considered. To reach a conclusion about the success of social responsibility, which takes place in that circle, it is necessary to find out the factors of success and failure along the way of their cooperation through research. The research hypothesis is the claim that a highly categorized marina significantly encourages the development of the destination. At the same time, there is a socially responsible behaviour of the local community, which continues as a collaboration between the local community and the marina. This means that socially responsible behaviour takes place as an iterative process, that is, a process that does not stop but is based on mutual support in development.

2. SOCIALLY RESPONSIBLE BEHAVIOUR AND BUSINESS

It should be explained that in this paper two terms are distinguished, socially responsible business and socially responsible behaviour. Socially responsible business is related to companies that operate profitably, while socially responsible behaviour is related to the local community as a non-profit entity. Socially responsible business is a step forward in relation to the concept of sustainable development, for which The Brundtland Commission says: „Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

- the concept of 'needs', in particular the essential needs of the world's poor, to which overriding priority should be given; and
- the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs "1

However, it should be noted that the concept of socially responsible business is not a product of our age, nor of the fifth industrial revolution. The concept of social responsibility dates back to the time of the Roman Empire, as well as India in the time of Chandra Gupta Maurya[2] when the care of the community was conducted.[3] In recent times, socially responsible business appears in the works of Bowen[4], only to co-exist with the practice at the beginning of the third millennium.

[1] World Commission on Environment and Development's (The Brundtland Commission) report Our Common Future, (Oxford: Oxford University Press, 1987), p 41.
[2] Dhanashree Balasaheb Kolte: „Chandra Gupta Maurya's Policies – Relevance in the Indian Society", Science, Technology & Public Policy 2021; 5(2): 91-95
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What is important is that the social responsibility of business consists of certain duties towards entities with which relations are developed that encourage the development of all entities in the system.

Figure 1: System of socially responsible business entities.

Source: Kalyan City Life, Sharing Wisdom and Vivid Memories of Life, 2013. , www.kalyan-city.blogspot.com/2013/07/social-responsibility-of-business-for.html (02. 12. 2023.)

So, the system of socially responsible business consists of shareholders or investors who invest funds in the business. They are followed by employees and others who make up the company's staff. In the continuation of that chain are the consumers or users of products and/or services, and the interests of the state and local communities are connected to them. What is important for this research is that local community entities join the social responsibility system. The interests of the local community are not related to profit but are aimed at the betterment of the community. Therefore, they are directly or indirectly influenced by entrepreneurship activities in their area. Such a chain, and especially the local community, have the task of preserving the environment's ecology and putting it to work for the wider public, which is an integral part of society. In this way, the interests of all stakeholders in the chain of social responsibility are united. On the one hand, the inevitability of the socially responsible business of the company, in this case the marina, is created, and on the other hand, the socially responsible behaviour of the local community is shaped. The analysis of the motivators of socially responsible business carried out by KPMG[5] back in 2005 showed the key motivators that drive companies in the direction of socially responsible business. The analysis was conducted on a sample of 1,600 companies worldwide and was published as the "International Survey of Corporate Responsibility Reporting", where 10 main motivators were listed:[6]

1) Economic considerations
2) Ethical considerations
3) Innovation and learning

[5]KPMG Report, www.kpmg.nl/Docs/Corporate_Site/Publicaties/International_Survey_Corporate_Responsibility_2005.pdf (24. 01. 2024.)

[6] Libraries, "6.7 Integrating Goals and Objectives with Corporate Social Responsibility", www.open.lib.umn.edu/principlesmanagement/chapter/6-7-integrating-goals-and-objectives-with-corporate-social-responsibility (24. 01. 2024.)

4) Employee motivation
5) Risk management or risk reduction
6) Access to capital or increased shareholder value
7) Reputation or brand
8) Market position or share
9) Strengthened supplier relationships
10) Cost savings

With the help of motivators, the company forms its vision and mission, and then its goals and plans (objectives). As Catroppa points out, the Balanced Scorecard is an important tool, because the goal is to understand the nature of corporate social responsibility.[7] At the same time, it is necessary to solve numerous dilemmas as well as a way of approaching certain problems and topics that may have been perceived outside the context of social responsibility in the past. For this purpose, clear and unambiguous goals are set that all participants in the socially responsible business system must clearly and sincerely adopt, and develop thoughts in this direction, such as:

1) CSR is a company determination that implies that the company must operate with a firm way of thinking in order to protect and promote the interests and well-being of society.
2) Profit should not be the only and highest goal, although it should be highly valued. In the entire management system, the contribution for the betterment and progress of society should be logically developed.
3) Accepted obligations of social responsibility should be unreservedly fulfilled. This applies especially to the welfare of the society in which it operates and whose resources and infrastructure it uses to achieve its profits.
4) Thinking that the company is giving away something to society must be excluded, because the interest is mutual. It is more thoughtful that giving something away leads to the disintegration of the CSR system.

Therefore, socially responsible business as well as behaviour includes all participants in the environment that develops around a certain entity, regardless of who it is. In any case, it is first about the leader, and then about everyone in his sub-system or industry. It is possible that two leaders appear, such as the marina and the local community. Both leaders, each from their own position, develop CSR, and then they should connect in a common system. Furthermore, in developed and high-tech countries, the tendency is to connect all sub-systems in a chain. In this way, the system can be programmed and managed. In this way, even development is ensured without any exception. Connecting the systems of individual industries can be programmatically developed up to the macro-national level. This means that development can be ensured programmatically in that macro-national system, which is ultimately not set in the sense of superiority or subordination. Therefore, everyone remains in their own sub-industrial system, developing to the satisfaction of all stakeholders. Socially responsible business, as well as behaviour related to non-profit organizations, should be viewed through four categories: environmental, philanthropic, ethical, and economic responsibility. The mentioned categories can be separate, but at the highest level of application they are carried out jointly as:[8]

[7] Catroppa, C.: „Integrating Objectives with Corporate Social Responsibility (CRS)“, www.linkedin.com/pulse/integrating-objectives-csr-claudio-catroppa/ (24. 01. 2024.)

[8] “What is Corporate Social Responsibility? 4 Types”, Harvard Business School (online) www.online.hbs.edu/blog/post/types-of-corporate-social-responsibility (24. 01. 2024.)

a) Environmental Responsibility

Environmental responsibility is the belief that organizations should behave in as environmentally friendly a way as possible. It's one of the most common forms of CSR. Some companies use the term "environmental stewardship" to refer to such initiatives. Companies that seek to embrace environmental responsibility can do so in several ways:

- Reducing harmful practices: Decreasing pollution, greenhouse gas emissions, the use of single-use plastics, water consumption, and general waste.
- Regulating energy consumption: Increasing reliance on renewables, sustainable resources, and recycled or partially recycled materials.
- Offsetting negative environmental impact: Planting trees, funding research, and donating to related causes.

b) Ethical Responsibility

Ethical responsibility is concerned with ensuring an organization is operating in a fair and ethical manner. Organizations that embrace ethical responsibility aim to practice ethical behaviour through fair treatment of all stakeholders, including leadership, investors, employees, suppliers, and customers. Firms can embrace ethical responsibility in different ways. For example, a business might set its own, higher minimum wage if the one mandated by the state or federal government doesn't constitute a "livable wage." Likewise, a business might require that products, ingredients, materials, or components be sourced according to free trade standards. In this regard, many firms have processes to ensure they're not purchasing products resulting from slavery or child labour.

c) Philanthropic Responsibility

Philanthropic responsibility refers to a business's aim to actively make the world and society a better place. In addition to acting ethically and environmentally friendly, organizations driven by philanthropic responsibility often dedicate a portion of their earnings. While many firms donate to charities and nonprofits that align with their missions, others donate to worthy causes that don't directly relate to their business. Others go so far as to create their own charitable trust or organization to give back and have a positive impact on society.

d) **Economic Responsibility**

Economic responsibility is the practice of a firm backing all of its financial decisions in its commitment to do good. The end goal isn't just to maximize profits, but also to make sure the business operations positively impact the environment, people, and society.

In accordance with the above, it is appropriate to observe research on the socially responsible business of companies, as well as the actions of non-profit institutions, through the aforementioned 4 categories.

3. MARINA MANAGEMENT IN SOCIAL RESPONSIBILITY

The Croatian marina industry is one of the rare segments of Croatian entrepreneurship that Croatia can boast about outside Croatian borders. Observed within the framework of numerous industries in Croatia, it can be concluded that the marina industry is at the very top, although there are not enough scientific papers to prove this. Nevertheless, the recognitions that come as a result of the analysis of the success of large supranational groups prove the success of Croatian marinas. For example, in ADAC's book from 2010, "Marinaführer Europa", all the then Croatian marinas are listed as high-quality marinas.[9] None of the countries listed in ADAC's research can boast of this.

[9] ADAC „Marinaführer Europa", ADAC Altproduktion, Germany, 2010.

Also, at the third world congress of entrepreneurs in 2023, Laguna trade d.o.o. - Marina Frapa, Resort Rogoznica is the winner of the "Creators for the Centuries" award. The decision on the award was made by the independent International Committee for Awarding the "Creators for the Centuries" Awards and Recognition. The international committee consisted of 15 prominent experts in economics, marketing, trade/sales, management, finance, and entrepreneurship. The analysis of entrepreneurial success included 9 countries in Central and Southeastern Europe.[10] According to this analysis, the question of the connection between entrepreneurial success and socially responsible business is raised. The analysis comes as a result of observing the long-term relationship between entrepreneurial success and socially responsible business. Thus, observing the ad hoc development of thoughts of several managers and owners of Croatian marinas, the development of thoughts about socially responsible business is noticeable. The need for socially responsible operations of marinas came mostly spontaneously. Also, the COVID-19 pandemic has stimulated the need for a community of marinas and charters[11], which extends to the local community. This process of socially responsible business development takes place in small towns where marinas are located, and over time it went through the following stages:

1) Overcoming the traditional attitude that prevails in undeveloped Croatian coastal destinations "don't touch our way of life".
2) Overcoming the internal need for sustainable behaviour, especially in terms of ecology.
3) Establishing the first connections with local self-government and the community.
4) Adoption of the need for environmental protection around the marinas, especially bathing areas in small towns.
5) Community understanding that the marina has the role of a local leader important for the development of the destination.
6) Understanding of the marina that the quality of the destination significantly affects the competitiveness and image of the marina.
7) Understanding of the local community to follow the development of the marina and to develop socially responsible behaviour within itself.
8) Connecting the local community and the marina in terms of joint development and coordinated and planned socially responsible behaviour.

It should be pointed out that the previously mentioned phases refer to marinas that are being developed in Croatian coastal destinations outside the big cities. This is of particular importance considering the need for uniform development of all parts of Croatia. That is, the cities along the Croatian coast developed rapidly a few decades ago, while small places and villages slowly died out. In order to analyse the relationship between the marina and the local community, both subjects had to consider and answer clearly two fundamental questions: In order to analyse the relationship between the marina and the local community, both subjects had to consider and answer clearly two fundamental questions:[12]

1) What interaction is there between the interest of certain classes of interest-specific actors in the satisfaction of their needs and the common needs?
2) What is the relationship between the profit-goal and the pursuit of interest?

After answering the above questions, it can be developed through socially responsible cooperation, business, and behaviour, through the joint cooperation and action of the marina and the local community.

[10] www.dulist.hr/svjetski-kongres-poduzetnika-marina-frapa-osvojila-prestiznu-nagradu/860101/ (29. 12. 2023.)
[11] Luković, T. & Piplica, D. & Peronja, I.: „Marina *Business* u relacijama razvoja", Multidisciplinarni znanstveni časopis „Pomorstvo", Sveučilište u Rijeci, Rijeka, 2022.
[12] Klaus, J. Hopt & Gunther, Teubner: „Corporate Governance and Director's Liabilities, Legal, Economic and Sociological Analyses on Corporate Social Responsibility", Walter de Gruyter, Berlin, New York, 1985., p. 101 & 102.

The conditions and social climate, in which the socially responsible operation of marinas develops, as well as the actions of the local community, gradually favours the goal of uniform development of places on the coast of the Croatian Adriatic. In order to see the environment in which socially responsible behaviour and business between the marina and the destination takes place and develops, it is necessary to conduct a PEST analysis of the environment.

Table 1: Four characteristics of the environment, PEST analysis of the Croatian coast

POLITICALLY	ECONOMIC	SOCIALLY	TECHNOLOGICALLY
NEGATIVE	***NEGATIVE***	***NEGATIVE***	***NEGATIVE***
Unstable Government	Low GDP growth	Lack of local workforce	Low level of technological literacy
Weak engagement for entrepreneurship (SME)	Unfavourable investment climate for domestic investors	Arrival and engagement of uneducated immigrants	Significant generational differences in literacy
Absence of a macro national system	Favourable climate for foreign downloads	Low birth rate of Croatian families	-
Too many laws that change frequently	Impossibility of favourable credit	High level of corruption and nepotism	-
Negative legal solutions	-		
POSITIVELY	***POSITIVELY***	***POSITIVELY***	***POSITIVELY***
Detailed categorization of marinas	Good competitiveness and occupancy of Croatian marinas	Understanding the need for essential applications	Mediocre trend following
-	The development of entities that are not under significant political control	-	Investment in development
-	-	-	Recognizing foreign role models

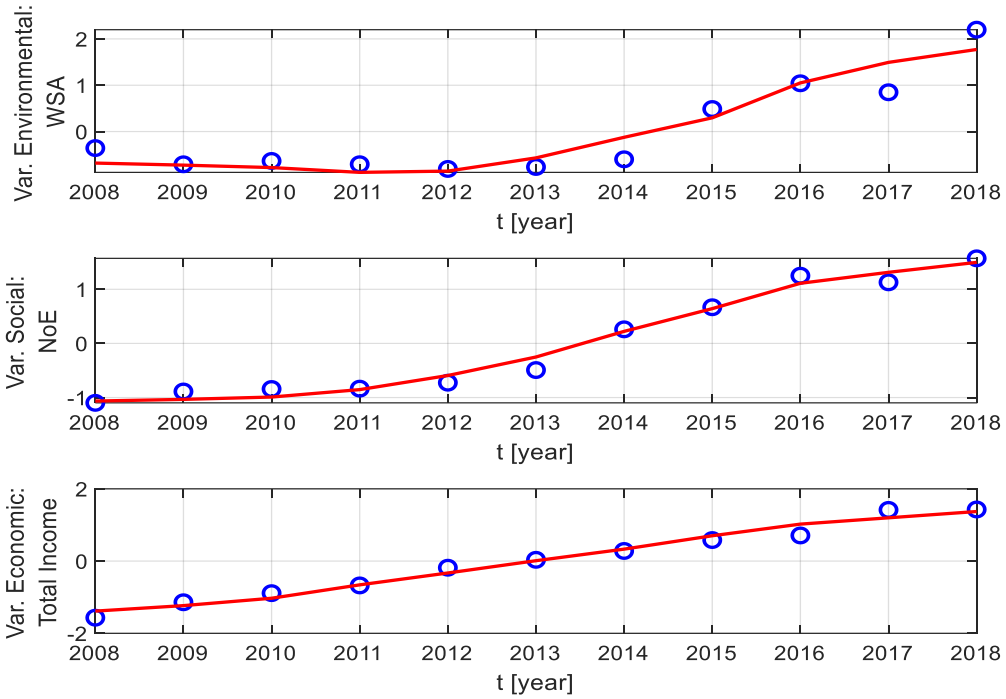
Source: created by the authors

As can be seen from the PEST analysis of the social and entrepreneurial environment on the Croatian coast, the technological environment is noticeably positive, which is a significant support for sustainable development, i.e., ecology. At the same time, in terms of impact on socially responsible business, technology does not have a direct significance, but it does have an indirect one. Furthermore, the political environment is extremely bad, and the close connection with the economic environment shows a high degree of dependence of the economy on politics.[13] This means that the negativity from the political environment spills over into the economy, and all together into society and the environment in which the marina operates. A similar conclusion can be found in the GEM 2022 survey, which confirms the unfavourable business climate in Croatia.[14] Although research shows a bad entrepreneurial climate in Croatia, as well as an unfavourable attitude of the Government towards entrepreneurship, the marina industry, thanks to its international status, has achieved a high level of development. At the same time, the business of the marinas takes place on the maritime property that includes the concession, which, through unfavourable legal regulations, significantly affects the business insecurity of Croatian marinas. The research conducted by Marušić and Šoda shows a high degree of correlation between the area of the water area (WSA), employees (NoE) and total income (TI).[15]

[13] Luković, T. & Jurić, T. & Piplica, D.: "Zarobljeno društvo & makronacionalni sustav, korupcija i demografija", Sveučilište u Splitu, Hrvatsko katoličko sveučilište u Zagrebu, Split prosinac, 2022.
[14] GEM 2022. „Što čini Hrvatsku (ne)poduzetničkom zemljom", poglavlje „Kompozitni indeks snage poduzetničke okoline NECI (National Entrepreneurship Context Indeks)", CEPOR Centar za politiku razvoja malih i srednjih poduzeća i poduzetništva, Zagreb, 2023., str. 83 – 86.
[15] Marušić, E. & Šoda, J. poglavlje „Održivi razvoj nautičkog turizma na primjeru luka nautičkog turizma u Hrvatskoj: ekonomska, ekološka i društvena dimenzija" u knjizi „Nautički turizam Hrvatske", 2024.

Based on the use of the statistical method for the dynamic enlightenment of variables (Moving Average, MA), the data trend is presented for each aspect of sustainability - economic, ecological, and social (Figure 2).

Figure 2: Graphic representation of transformed variables (WSA, NoE, TI)

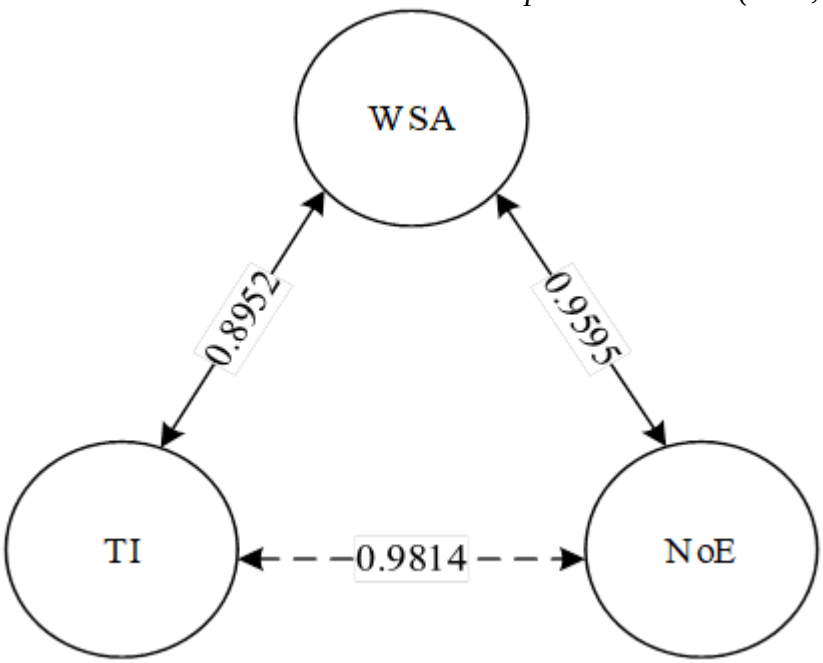


Source: Downloaded from Marušić, E.: „Relations Between Environmental, Social, and Economic Variables of the Nautical Port System": A Croatian Case, 19th International Conference on Transport Science ICTS 2020 Conference Proceedings, Portorož, September 17-18, 2020, ISBN 978-961-7041-08-8, str. 214-219.

Figure 2 presents graphical representations for the three analysed variables of sustainable development of the system of nautical tourism ports in Croatia. The observed period is 2013 to 2018. When calculating the trend, the dynamic average method (Moving Average, MA) was used, while five adjacent points were used for the so-called "window width". From Figure 2, it can be seen that the water surface area (WSA) variable has a constant growing trend from 2008 to 2012, while from 2013 to 2018 it changes to a linear increase and slows down. The graphic representation of the variable number of employees (NoE) represents a trend of constant growth from 2013 to 2018, while from 2008 to 2012 it grows slightly linearly. The graphic representation of the movement of total income (TI) shows a trend of uniform constant growth throughout the observed interval. Based on the calculations, a strong correlation was established between the 3 variables mentioned.

Figure following on the next page

Figure 3: Correlation between sustainable development variables (WSA, NoE, TI)



Source: Downloaded from Marušić, E.: "Relations Between Environmental, Social, and Economic Variables of the Nautical Port System: A Croatian Case", 19th International Conference on Transport Science ICTS 2020 Conference Proceedings, Portorož, September 17-18, 2020, ISBN 978-961-7041-08-8, str. 214-219.

From Figure 3, which shows the correlation between the mentioned variables, it can be concluded that in marinas there are strong correlations between the area of the water area (WSA), the number of employees (NoE) and the total income (TI). This leads to the conclusion that the variables are mutually dependent. Thus, the social and economic aspects of the environment are highly correlated, which together with the negative political environment create a triple disadvantage for socially responsible behaviour. The exception is technology, which in marinas has more positive features than negative ones. Nevertheless, the positivity of technology conditions faster and easier information, which significantly affects the development of thoughts of owners and managers. Unfortunately, the good development of marina management's thoughts on socially responsible business conflicts with the negative political, economic, and social environment. This makes the overall result unfavourable. The question arises as to what is the final result of socially responsible business. In order to answer that question, it is necessary to look at the state of the destination, that is, the state of local self-government. As an example, a case study, the analysis included the Frapa marina and the local community of Rogoznica, in Šibenik municipality. A research question is asked, what is the final result of socially responsible business, in the relationship between the marina and the local community, in the conditions of a small Croatian coastal municipality, such as Rogoznica.

4. LOCAL SELF-GOVERNMENT IN SOCIAL RESPONSIBILITY

When it comes to local self-government, it is necessary to look at its internal structure, the environment in which it operates, political will, financial power, but also staffing. The subject of this study is the local community in smaller towns along the Croatian coast. Almost as a rule, these are places that were in the process of dying, whose demographic problem was very difficult. The problem of demography, i.e., the decline in the number of inhabitants, is the central problem of the survival of small towns, as well as their development.

Reversing the trend of displacement into a trend of immigration and development is the basic problem of small local communities that have remained on the margins of the interests of Croatian politics and administration. On the one hand, this is very bad, but on the other hand, it is encouraging. That is, the changes in Croatia that are necessary in order for Croatia to move away from the back of the EU, especially in entrepreneurship, for now depend on the party in power. At the same time, big cities closely tie their development to politics and the central government, while small towns, regardless of the party affiliation of the local government, take more care of their place and are less dependent on the central political government. According to the 2021 census, Croatia has 6,757 settlements and a total of 3,871,833 inhabitants, of which only 35 settlements have more than 10,000 inhabitants. Considering the number of inhabitants, 1,742,840 inhabitants or 45.01% of the total Croatian population live in this grouping of 35 settlements.[16] This means that about 55% of the population lives in settlements with less than 10,000 inhabitants, that is, in settlements that are small and relatively distant from the central government. This problem in Croatia is also the same in the Croatian coast, so outside the big cities there is a larger population, but also a large number of small municipalities. Therefore, in smaller municipalities, regardless of party affiliation, the connection between the local government and the needs of the community is greater than in large cities and municipalities. At that level, the demands of citizens are more pronounced, but the connection "government-community-people" is closer, and thus positive conditions for action. The question arises as to how the socially responsible behaviour of the local community, as well as the socially responsible operation of marinas, develops in these smaller municipalities. Also, the question is whether there is joint socially responsible action.

5. MARINA AND LOCAL GOVERNMENT IN SOCIALLY RESPONSIBLE BUSINESS AND BEHAVIOUR

The cooperation between the marina and the local self-government, in numerous smaller towns, takes place successfully despite numerous problems that are mainly a matter of external influences. In other words, the way the government operates in Croatia, viewed hierarchically, takes place according to the system of transferring problems to lower levels of government. At the end of this transfer of problems and responsibilities, the problems are stationed in the local community. All the results show, as confirmed by the county and local governments, that investments in the maritime sector are taking place. But the investments are significantly below the level of development of entrepreneurship that develops on the maritime domain. Therefore, investments in facilities and infrastructure on the maritime property, which is the responsibility of the state, have been relatively lagging behind for years. This particularly affects coastal small and medium-sized enterprises, where nautical tourism entities have the most problems in development. Therefore, it can be concluded that the basic role of the state, which is support for entrepreneurship, is developing more and more unfavourably and has a significant impact on its lagging behind. This especially applies to large towns and municipalities, such as Split. In large towns, the distance from local politics to the people and entrepreneurs is much greater than in small towns. In this way, the contact between stakeholders, which is necessary for direct action, is not sufficiently developed. In smaller towns, this contact is more immediate and closer, and local government turns more into serving the people and entrepreneurship, and less into the power of government, unlike in larger towns. There is a question of socially responsible business, as well as behaviour, in smaller towns where there is a marina. This especially applies to the local community where the marina is of a higher category and domestically owned. In order to answer that question, a survey was conducted that produced the following results.

[16] DZS Popis stanovništva kućanstava i stanova 2021, Zbirni popis, Tablica 4. „Naselja prema broju stanovnika, popis 2021."

The survey, the research, is divided into three segments, the socially responsible behaviour of the local government, the socially responsible business of the marina, and finally, the cooperation of the local community/authority with the marina in terms of socially responsible behaviour.

5.1. Local government and socially responsible behaviour, the example of Rogoznica

Rogoznica is a small municipality, but very successful in terms of many indicators of development. The conducted survey focused on socially responsible behaviour showed the following:

a) The definition of socially responsible behaviour is not fully known to the leadership of the municipality, but the content of that term is understood and applied in practice. The leadership of the municipality, in the context of socially responsible behaviour, focused on the formation of goals, transparency of actions, respect for the law and ethical behaviour. So, socially responsible behaviour is largely implemented, but it is a spontaneous action that shows highly moral characteristics of leadership.
b) The management of the municipality intervened by investing in the uniform appearance of cafes and restaurants on the new waterfront. In this way, through non-reimbursed investments in the external appearance of cafes and restaurants, harmony with the new waterfront was achieved. The leadership of the municipality was guided by the view that the investment in the private sector will pay off through the increased business of cafes and restaurants, thereby recovering its investment through a mass of taxes. On the other hand, better business will lead to the improvement of the entire town and municipality.
c) The activities of the municipality, especially from the financial aspect, are transparent and can be found on the website of the municipality. During the short term of the new leadership of the municipality, the following were intervened with the funds of the municipality:
    - upgrade of the kindergarten floor, financing from the EU fund, HRK 4 million
    - construction of the local cemeteries of Dvornice and Sapina Doca - the amount of HRK 2.5 million
    - children's playground and outdoor exercise area - financing from the EU fund, €80,000.00
    - construction of the waterfront, scope 3: investment amount HRK 20 million, HRK 10 million received from the Ministry of the Sea, Transport and Communications of the Republic of Croatia,
    - preparation of project documentation for the construction of the hall, which has been submitted to the Ministry of Education, so the EU tender guidelines are awaited,
    - secondary network of Dvornice settlement - investment value HRK 6.5 million, 184 houses connected,
    - construction of public lighting €140,000.00 for the entire municipality on an annual basis, equally for all 7 settlements,
    - construction and asphalting of ungraded roads, and rehabilitation of existing ones - HRK 4 million.
d) The management of the municipality works on the uniform development of all settlements of the municipality, so the funds are generally spent uniformly for all places. For the town Ražanj, in cooperation with the Port Authority of Šibenik, a project is being developed for the rehabilitation of the waterfront in Ražanj. Since it is about the port area, synergy is achieved with the Šibenik Port Authority. The problem of the port of Ražanj is a long-standing problem and an example of a bad maritime resource management system. All the problems of maritime assets have been reduced by the Government to the lowest levels, without the conditions for implementation and supervision being met.

e) On the basis of the Amendment to the Spatial Plan of the Municipality, a Public Procurement tender will be announced for the construction of the Ražanj-Varoš beach, which is a natural beach but still undeveloped.
f) The leadership of the municipality organized itself according to the modest staffing possibilities and connected with the private sector. This resulted in HRK 14 million being realized from EU funds in the past year 2023. Also, €80,000.00 was realized for beach rehabilitation, increased by funds received from the Ministry in the amount of €70,000.00. Cooperation with private entrepreneurs is limited by law, which prevents better results.

It can be concluded that at the level of the leadership of the municipality of the local community of Rogoznica, socially responsible behaviour is well implemented in most segments of social responsibility. It is about spontaneous socially responsible behaviour, thanks to the moral values of the leadership of this small coastal municipality. The high degree of personal responsibility of members of the local leadership, along with local patriotism, good business logic and direct cooperation with the people and entrepreneurs, contribute to success and results. The development of the Rogoznica municipality is taking place, although the municipality's resources are limited, and the staffing is minimal.

5.2. Marina in socially responsible business, example of marina Frapa, Rogoznica

Marina Frapa Rogoznica is the most awarded Croatian marina and is at the very top of the marinas in the Mediterranean, Europe and the world. The owner of the marina and the management make key decisions important for the long-term development of the marina. At the same time, the owner of the marina is not satisfied with profit as a means of personal satisfaction, but constantly invests in new facilities of the marina, thus raising the otherwise high rating of this marina. Regarding socially responsible business, the management of the marina is familiar about the benefits that are realized through socially responsible business. The owners' and management's awareness of social responsibility and the benefits of such business did not come spontaneously. This knowledge is the result of constant research and monitoring of global processes in the most developed economies of the EU and the world. Marina Frapa's role for Rogoznica is that of a leader, which she is aware of. In accordance with its role, the marina respects and develops a high level of socially responsible business. As a result of knowing the basic postulates of social responsibility, the marina is planning to develop four areas of socially responsible business. It is precisely the fact of socially responsible business that ranks the marina Frapa at the very top of Europe and the world. Therefore, socially responsible business can be analysed through 4 basic areas/criteria of socially responsible business:

- **Responsibility towards the environment** is a pillar of the social responsibility of marinas that put environmental protection at the forefront of their approach to business and activities in and around the marina. This is about preserving the cleanliness of the sea, the coast, as well as the nearby beaches that are next to the marina and connected to it. In this regard, the marina carries out:
  a) High standards of protection against pollution of the sea and coast are regulated by ordinances that regulate the acceptance of lubricating oils, their disposal, removal, and protection. The operation is carried out with a high degree of supervision.
  b) 24-hour physical, technical and technological monitoring of the ecology of the sea and coast in the marina.
  c) Development of new patented projects for inconspicuous collection and disposal of waste and lubricating oils from vessels in the marina.
  d) Development of new lockers as marina patents that reduce the risk of fire and pollution almost to zero.

e) Supervision of the nearby beach and facilities around the marina, which is carried out as an aid to the local self-government in its supervision system.
f) Development of an independent power supply system, which makes the marina energy independent.

- **Ethical responsibility** of the marina comes as a result of numerous factors, primarily from its high international status and business with companies and people from all over the world. There are numerous indicators of the high level of ethical behaviour and operations of the marina:
  a) As a result of the lack of manpower, the marina employs employees from non-Croatian countries. Marina also implements the process of education and professional training of employees of foreign nationalities, thus equalizing them with local employees.
  b) The billing problem, which significantly burdens the business of Croatian entrepreneurs, does not apply to the marina Frapa, which resolves all its obligations in less than 15 days. Therefore, all suppliers and companies wish to do business with the marina Frapa in Rogoznica.
  c) All problems that arise unexpectedly or expectedly are solved by the marina with stakeholders and shareholders. Problems are solved with the realization and satisfaction of their interests, and everything is carried out within the framework of diligent business.
  d) The marina develops a special form of ethically responsible business with the local community and all entrepreneurs with whom it does business.

- **Philanthropic responsibility** is a pillar of corporate social responsibility, regardless of the size of the company. In this case, it is a marina that through its business contributes to the development of the community and society in which it is located. The arrival of the marina Frapa in Rogoznica in 1991 marked the renewal of Rogoznica and the beginning of its development. During the development of the marina Frapa in Rogoznica, good cooperation was achieved with the local community and residents of Rogoznica, which conditioned:
  a) Accelerated development of local and municipal entrepreneurship, especially in the summer season.
  b) Employment of local population.
  c) Putting the capacity of the marina into the function of the needs of the social community, both local and regional.
  d) Local and national sacral monuments are financed by marina Frapa. The restoration of cultural heritage is financed by the marina, both in Croatia and outside Croatia.
  e) With the funds of the marina, numerous sports events are encouraged, which take place not only in the marina but also outside it.
  f) Employment has been extended to foreign nationals for whom training has been organized so that they can more easily and quickly get involved in work in the marina, but also in life in the community.
  g) For everyone who shows talent, the marina supports the education process.

- **Financial responsibility** is a pillar of corporate social responsibility that connects the previously mentioned three areas of social responsibility. Marina Frapa sets goals and directs funds to environmental protection, development, ethics, and philanthropy, however. Also, with plans and then funds, the marina supports investments in programs, projects, donations, and research. In this regard, the marina sets goals and then plans, which results in budgeting and operational activities, such as:
  a) Research and development of new products and patents related to ecology and self-sustainability.

b) Employment is carried out with the possibility of investing in education in accordance with the natural predispositions, interest, and skills of the employee.
c) Recruiting different types of talent and education to ensure a diverse workforce in the marina.
d) Initiatives that train CSR management, which is then transferred to employee training, in order to develop social awareness and care for the environment in the marina.
e) Investing in processes of energy independence of the marina, as well as projects that ensure greater safety of vessels in the marina. It also ensures the safe collection of waste and lubricating oils in an almost invisible way so as not to disturb boaters.
f) Investing in projects outside the marina, in Croatia and Bosnia and Herzegovina, which relate to the development of new and renewable energy sources.
g) Support and financing of scientific projects, especially nautical tourism research.
h) Financing of the international sailing competition, as well as other sports and entertainment events important to the community.
i) Ensuring transparent and timely financial reporting, including engagement of external audit.

It can be concluded that the management of the marina, in accordance with the education and monitoring of the development of scientific thought and society outside Croatia, is familiar with socially responsible business. Therefore, the management of the marina and the owner realized the positives that come from such a business. Regarding the role of the marina as a local leader, the question is how the socially responsible behaviour of the municipality's leadership and the socially responsible business operations of the marina are connected into one whole, which contributes to all subjects of the local community.

5.3. The link between the socially responsible operations of the marina and the leadership of the municipality

The survey showed that the cooperation between the leadership of the municipality and the marina is relatively intense. The local beach physically continues to the marina, and the marina takes care of the cleanliness of the sea, as well as the quality of the beach. The leadership of the local community is aware that the marina is a key factor in the development of the municipality of Rogoznica, and they are trying to jointly develop projects of wider social interest such as:

a) In accordance with the fact that Rogoznica is a tourist destination, during the summer the management of the municipality and the marina jointly form a program of events.
b) Valorisation of Lake Dragon's Eye, which is a natural phenomenon, creates a special type of swimming pool with facilities provided by the marina. Marina takes special care of the ecology of Lake Zmajevo oko (Dragon’s eye).
c) Holy Lady of Kapelica, which is located in Gradina, has a way to get to it through the marina. It is a local cultural asset and religious site, which the marina helps maintain.
d) At the locality of the marina, the municipality organizes various competitions, in which children's fishing competitions, ballot competitions, boxing competitions and others take the lead.
e) Marina Frapa and the municipality of Rogoznica, together with the Tourist Board, are working on a project to protect swimming for the statue of Our Lady as a cultural asset.

The survey showed the existence of interest in joint financing of the marina and the municipality, but the law does not allow this. The legal limitation of cooperation shows the low level of development of awareness of social responsibility in Croatian politics and administration.

In order to make it more clear and measurable, with the help of the Likert scale, the factors of socially responsible operations of the Frapa marina, as well as the socially responsible behavior of the management of the municipality of Rogoznica, will be assessed. Given that it relates to the research of the attitudes of the subjects of the marina and the leadership of the local community, the Likert scale is suitable for the said research.

Table 2: Rating of the attitudes of the leaders of the marina Frapa and the Municipality of Rogoznica, Likert scale (1-5)

CSR indicators	**Rogoznica municipality leadership**	**Marina Frapa**	Remark
Understanding the term CSR	3	5	With the leadership of the municipality, it is spontaneous, and with the marina, it is an insight into the terminology.
CSR planning	4	4	The municipality plans well, although it does not set it as CSR, while the marina clearly puts it in the category of CSR.
CSR activities	5	5	Both invest heavily.
Activities to help entrepreneurs in the municipality of Rogoznica	5	2	The municipality stands out by investing in local entrepreneurship, while the marina helps, but modestly.
Activities to help entrepreneurship outside Rogoznice	1	3	Marina moderately supports entrepreneurship outside Rogoznica and cooperates with entrepreneurs outside the town.
Supporting scientific research	3	4	Marina supports scientific research and uses it for the purpose of its development. The municipality supports the research of Lake Zmajevo oko.
Supporting the education of Rogoznica residents	4	1	The municipality supports the primary and higher education of its population.
Organizing the education of foreign citizens in Rogoznica	1	4	As part of the marina, the education of foreign citizens is organized so that they can successfully perform tasks in the marina.
Care for children in Rogoznica	5	1	The municipality stands out in the care of children in Rogoznica through kindergartens, playgrounds and the construction of a new sports hall.
Beach care	4	2	The marina and the municipality take care of the beaches, but the beaches are under the responsibility of the municipality, so the municipality cares more.
Care of the port area	4	2	The municipality, according to its possibilities, takes care of the maritime property and the port area, while the marina takes care of its own area.
Ecology in the municipality	4	2	Taking care of ecology in the municipality is the responsibility of municipal services and officials.
Investing in renewable energy sources in Rogoznica	3	5	Marina strongly supports investments in renewable energy sources. It strives for energy self-sufficiency. The municipality plans to build a solar power plant.
Investing in renewable energy sources outside Rogoznica	3	5	Marina strongly supports investments in renewable energy sources. It strives to develop new patents. The municipality is investing in "smart benches", solar lighting and signalling.
Aspiration for cooperation	3	3	Both strive for cooperation and joint investment, but there are legal restrictions.
IN TOTAL:	48	48	Both subjects implement CSR equally, and the limit of cooperation is the law.

Source: created by the authors in October 2023.

According to the results of the survey and the assessment of attitudes using the Likert scale, it can be concluded that both entities very effectively realize all aspects of socially responsible business and behavior.

Namely, the leadership of the local community is more focused on the local needs and wishes of the citizens, while the marina Frapa is focused on activities in the marina, outside the marina, as well as outside the borders of Croatia. Also, it can be concluded that the marina and the leadership of the municipality cooperate well, creating conditions for the accelerated development of this small local community. Unfortunately, better cooperation is prevented by Croatian laws. Awareness of social responsibility is present, but it needs to be developed and supported. The fact that local self-government is the last link in the hierarchy of authorities in Croatia, and that it is mostly left to itself, requires a high level of leadership awareness of social responsibility. Also, this builds on the need for transparent action and decision-making, as well as morality, with constant learning. The lack of personnel in Croatia also affected small local communities such as Rogoznica. This points to the development of awareness about the acceptance of immigrants eager to work and live in Croatia, including in Rogoznica. The first foreign nationals, as immigrants and workers, are employed at marina Frapa, so it is expected that they will soon enter other businesses in Rogoznica. The problem is their low and inadequate education, which must be initiated through education and training programs. Their involvement in the community and work is an important aspect of socially responsible business and behavior in Rogoznica.

6. CONCLUSION

Socially responsible business and behaviour for Croatia is a conditionally new category that has expanded the concept of management and management, both of economic entities, as well as non-profit organizations and communities. Representation of the concept of socially responsible business and behaviour is not the same in all countries. It is noticeable that socially responsible business is more prevalent in developed countries and economies, in contrast to economies in transition, where it has only begun to appear sporadically. Although the development of ideas about social responsibility differs regarding the general development of countries and their economies, it is still significantly more developed in some industries and communities than in others. A good example are small coastal Croatian municipalities, which rely on marinas for their development. The reason for this is that, in line with international competition, marinas develop awareness of social responsibility more quickly. This is not about a loss of profit, but the opposite, in the long term, by investing the marina in the community as well as in other forms of socially responsible business, the profit increases. Certainly, profit is necessary because it is a condition of investment in development. At the same time, the local government, which starts from local patriotism, with the support of traditional values and morals, achieves good development results. At the same time, he spontaneously enters and develops socially responsible behaviour in his work. The research and analysis, which was carried out for the purposes of this paper, on the example of the municipality of Rogoznica and the marina Frapa, came to a conclusion about the development of socially responsible business and practices. At the same time, it was observed that socially responsible behaviour takes place spontaneously and without a clear understanding this term. This means that the socially responsible behaviour of municipal leaders came as a result of understanding the situation on the ground. Understanding the situation on the ground produces a desire to develop one's place, confidence in the potential of the entire community, which resulted in the municipality investing in the development of entrepreneurship. The investment of the local community, which used numerous sources, especially EU funds, had a significant impact on the image of Rogoznica. Rogoznica has become an internationally known and recognized place for rest and leisure. At the same time, the marina Frapa assumed the role of a local leader, and with its high international status on the nautical tourism market, significantly contributed to the development of Rogoznica. The development of the marina Frapa and its contents and products take place through research that the marina encourages.

Through research, new knowledge is acquired from all world markets and marinas. In the fierce international competition of marinas, the management of the marina Frapa has become aware of market trends. Current market changes increasingly highlight the need and benefits of socially responsible business, which the marina is adopting. This influenced the development of thinking about the socially responsible business of the marina Frapa, which clearly distinguishes four basic areas of socially responsible business. Analysing the link between the socially responsible behaviour of the management of the municipality of Rogoznica and the socially responsible business of the management marina Frapa, it is concluded that the commonality exists in the form of joint planning and cooperation, but not investment. The legal obstacles of the Croatian legislation make it impossible to connect the socially responsible activities of the local community and the marina. This is an unacceptable obstacle that the wider community, state policy should be warned about. In conclusion, the research hypothesis highlighted the claim that a highly categorized marina significantly encourages the development of the destination, after which the socially responsible behaviour of the local community occurs. The stated claim was confirmed by this research, with the note that there are numerous limitations that prevent a faster and better development of socially responsible behaviour. This especially applies to the cooperation between the marina and the local community. At the same time, it is necessary to transfer the awareness of social responsibility to higher levels, that is, to expand it in the circles of state power, politic, and administration. Also, socially responsible behaviour, as well as all its elements, must become an important segment of youth education in Croatia.

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STAKEHOLDER THEORY AND CORPORATE SUSTAINABILITY: THE SILENT STAKEHOLDER PROBLEM

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ABSTRACT

Stakeholder theory represents a widely used theoretical framework for the study of corporate sustainability. At the same time, the scientific community continuously questions the compatibility of the concept of stakeholders with the concept of sustainability. At the center of this scientific debate is the still unsolved problem of identifying the environment as a stakeholder, within which all the key questions of the compatibility of stakeholder theory and corporate sustainability are sublimated. The fundamental contribution of this overview is in the critical consideration of the compatibility of the stakeholder theory with the concept of corporate sustainability through the prism of the environment as a silent stakeholder. The key conclusion of the paper is that the cohabitation of stakeholder theory and corporate sustainability in the long term looks less and less likely because the operationalization of corporate sustainability requires an approach beyond the stakeholder approach, while the existing stakeholder approach, despite its shortcomings, continues to be used due to its wide acceptance in managerial circles.

Keywords: *stakeholder theory, corporate sustainability*

1. INTRODUCTION

Stakeholder identification means organizing activities aimed at identifying stakeholders that are important for a certain organization (Mitchell et al., 2017). The vagueness of the stakeholder concept (Orts and Strudler, 2009), as well as the existence of many definitions of this concept, has made the problem of stakeholder identification one of the more interesting research topics within stakeholder theory and a problem that has not been definitively resolved to date (Miles, 2012, McGrath and Whitty, 2015). The original definition of stakeholder as *a group without whose support the organization would cease to exist* (Stanford Research Institute, 1963, cited in Freeman, 1984: 31) indicates the breadth as well as the inclusiveness of the subject concept (Laine, 2010). However, a more careful consideration of this fundamental definition reveals its anthropocentricity, evident in the absence of recognition of the environment as a stakeholder. With the evolution of the stakeholder theory, the problem was addressed through several mutually conflicting solutions. The lack of consistency of this theoretical framework in relation to the identification of the environment as a stakeholder legitimizes the question of the adequacy of the stakeholder theory for addressing the problem of corporate sustainability within which environmental issues are positioned as some of the most significant. Therefore, the fundamental goal of this paper, through the treatment of the environment as a silent stakeholder, is to determine how the stakeholder theory is positioned regarding the issue of corporate sustainability, which is one of several recently recognized possible avenues for future research within the stakeholder theory (Wood et al., 2018). This paper is organized as follows. After a short introduction, key concepts are presented: corporate sustainability and stakeholder theory. The third part of the paper presents the methodology used in the research. The fourth and central part of the paper includes a narrative review of the existing scientific literature at the nexus of stakeholder theory and corporate sustainability. The last segment of the paper refers to the discussion of the findings, summarizing the most important conclusions and highlighting potentially interesting directions for future research.

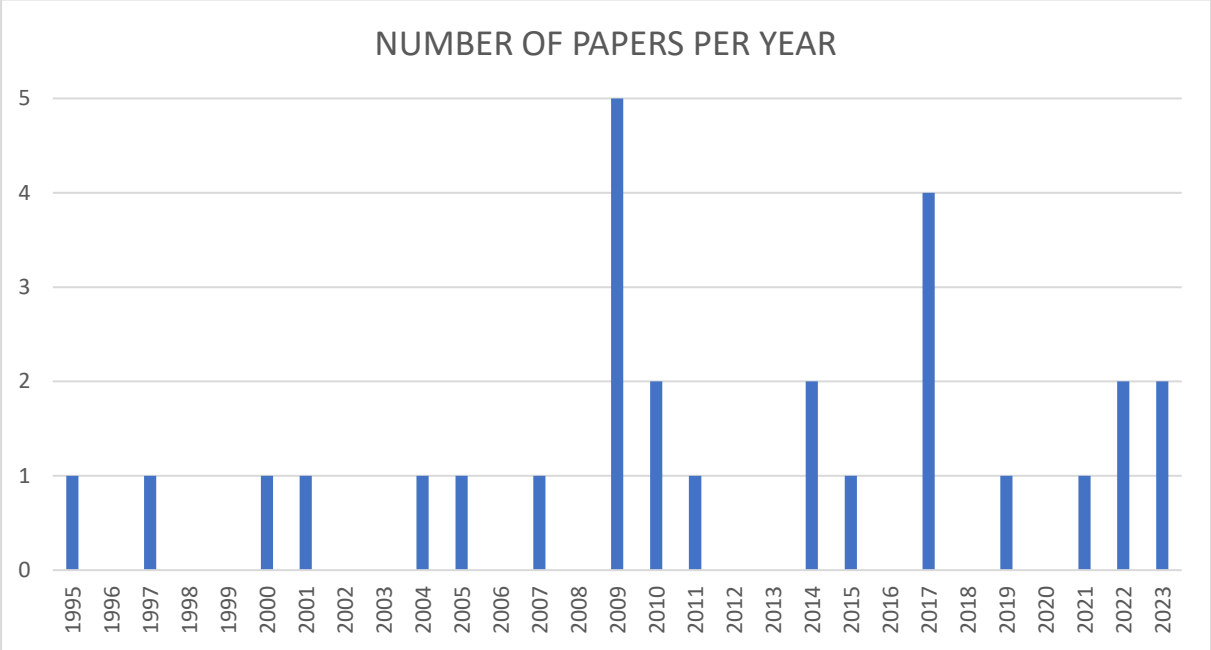
2. CORPORATE SUSTAINABILITY AND STAKEHOLDER THEORY

The Brundtland report contained the basic definition of the concept of sustainability as *meeting the needs of the present without compromising the ability of future generations to meet their own needs* (WCED, 1987: 41). Corporate sustainability represents the application of the umbrella concept of sustainability at the micro level. Although both reject a shareholder-centric view of corporate purpose, corporate sustainability is a distinct concept from the concept of corporate social responsibility. Although the stakeholder approach is embedded in both (Strand et al., 2014), stakeholder theory favors the former over the latter. Given that, unlike corporate social responsibility, stakeholder theory was founded on the principle of the inseparability of business and ethics (Parmar et al., 2010), the call to abandon the concept of corporate social responsibility made by its founder (Freeman and Liedtka, 1991) is not surprising. Despite this, the popularity of the stakeholder approach to the issue of corporate social responsibility is not waning (Fassin, 2009). On the other hand, the concept of corporate sustainability is considered more compatible with the stakeholder way of thinking (Parmar et al., 2010). Nevertheless, corporate sustainability is still strongly evolving, so there is no single universally accepted understanding, but rather a spectrum of definitions of this term (Nikolaou et al., 2018), at the ends of which there are conflicting worldviews: anthropocentric, which believes that people control nature, and ecocentric, which sees people as a part of nature (Landrum, 2017). Based on such worldviews, two opposing versions of sustainability were formed: weak and strong. Concrete differences between them are found in the treatment of natural capital: while weak sustainability allows substitution between environmental, social, and economic capital, provided that their total value does not decrease, strong sustainability insists on preserving the existing level of natural capital (Demastus and Landrum, 2021). Stakeholder theory was developed to answer questions of value creation and trade, questions of the ethics of capitalism and questions of directing the prevailing managerial worldview towards the previous two questions (Parmar et al., 2010). Stakeholder theory is an umbrella term that encompasses its three sub-species: descriptive, normative, and instrumental stakeholder theory (Donaldson and Preston, 1995). Descriptive stakeholder theory explains the actual behavior of corporations (Ashrafi et al., 2020), that is, it describes the corporation as a *constellation of cooperative and competing interests* (Donaldson and Preston, 1995: 66). Normative stakeholder theory explains *how corporations should behave* (Ashrafi et al., 2020: 5). Finally, the instrumental stakeholder theory postulates that a company's approach to stakeholders can be a source of competitive advantages for the company (Jones et al., 2018). A *stake* is *any interest or claim that a group or individual has in the result (outcome) of corporate policy, procedures, or actions towards others* (Tipurić, 2006: 36). Among a total of 593 recognized definitions of the stakeholder concept (Miles, 2017), the most well-known definition is that stakeholders are *any group or individual who can affect or is affected by the achievement of the organization's objectives* (Freeman, 1984: 24). Such a definition belongs to a broad view (Barnett et al., 2018). On the other hand, a narrow view would define stakeholders as *persons or groups who have or claim ownership, rights or interests in the corporation and its activities, past, present, or future* (Clarkson, 1995: 110). It is generally accepted that the fundamental characteristics of stakeholders are the possession of the power to influence the organization, the possession of legitimacy, whether concrete political-economic or just ethical, and the existence of urgency of claims (Mitchell et al., 1997). However, there is no agreement in the scientific literature on the interpretation of whether an individual entity possesses any of the above-mentioned characteristics, which makes the relationship of stakeholder theory with other theoretical frameworks challenging.

3. METHODOLOGY AND SAMPLE

In the first phase of the research, relevant scientific papers were identified and selected. In January 2024, an extensive search of the Web of Science and Scopus databases was conducted, which included articles in scientific journals, books and conference papers published in English that contained the following keywords in the title, abstract or among keywords: *stakeholder theory* and *corporate sustainability*. The initial bibliographic search resulted in a total of 275 matches. In the second phase, the final set of scientific papers was selected. The first assessment of the relevance of the scientific material that was the result of the first phase of the research was made after reading the summaries of the collected scientific papers. The key inclusion criterion was a match with the defined research objective, that is, the existence of a reference to the treatment of the environment within the stakeholder theory or, minimally, a broader consideration of the compatibility of the stakeholder theory and corporate sustainability. Applying this criterion, a total of 236 papers were rejected. After that, the entire manuscripts of all the remaining scientific papers were read. The key exclusion criterion was the absence of a conceptual consideration of the status of the environment within the stakeholder theory. An additional 27 works were rejected, leaving a total of 12 works. Using the snowball method, an additional 17 papers were identified, so at the end of this phase, the sample consisted of a total of 29 papers. In the third phase, all scientific works from the sample were mapped with regard to key attributes: author's name, year of publication, research questions and key research findings. The data mapped in this way were synthesized, creating logical clusters within the research area that provide an answer to the research question. The last phase included the reporting of the research results, which included a basic bibliometric analysis of the defined research area. Figure 1 shows the dynamics of the publication of scientific papers from the research sample, from which the continuity of interest in the topic of environmental positioning within the stakeholder theory can be noticed.

Chart 1: Number of papers per year



Source: author

Table 1 shows a list of 11 scientific papers with at least 100 citations, with the work by Mitchell et al. (1997) representing the fundamental and still widely used model of stakeholder identification and salience.

Table 1:The most cited papers from the research sample

AUTHOR(S)	TITLE	YEAR	PUBLISHER	CITATIONS
Mitchell, R. H., Agle, B. R., Wood, D. J.	Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of who and What Really Counts	1997	Academy of Management Review	6932
Parmar, B. L., Freeman, R. E., Harrison, J. S., Wicks, A. C., Purnell, L., De Colle, S.	Stakeholder Theory:The State of the Art	2010	The Academy of Management Annals	1567
Gladwin, T. N., Kennelly, J. J., Krause, T.	Shifting Paradigms for Sustainable Development: Implications for Management Theory and Research	1995	Academy of Management Review	964
Phillips, R. A., Freeman, R. E., Wicks, A. C.	What Stakeholder Theory is Not	2005	Business Ethics Quarterly	633
Fassin, Y.	The Stakeholder Model Refined	2009	Journal of Business Ethics	262
Driscoll, C., Starik, M.	The Primordial Stakeholder: Advancing the Conceptual Consideration of Stakeholder Status for the Natural Environment	2004	Journal of Business Ethics	254
Lozano, R., Carpenter, A., Huisingh, D.	A review of 'theories of the firm' and their contributions to Corporate Sustainability	2014	Journal of Cleaner Production	175
Phillips, R. A., Reichart, J.	The Environment as a Stakeholder? A Fairness-Based Approach	2000	Social Science Research Network	172
Madsen, H., Ulhøi, J. P.	Integrating environmental and stakeholder management	2001	Business Strategy and the Environment	152
Miles, S.	Stakeholder Theory Classification: A Theoretical and Empirical Evaluation of Definitions	2017	Journal of Business Ethics	143
Schaltegger, S., Hörisch, J., Freeman, R. E.	Business Cases for Sustainability: A Stakeholder Theory Perspective	2017	Organization & Environment	122

Source: author

4. OVERVIEW OF THE RESEARCH AREA

The research area at the intersection of stakeholder theory and corporate sustainability is characterized by high scientific interest. Indeed, stakeholder theory has recently been the dominant theoretical framework in the study of corporate sustainability (Sabirali and Mahalakshmi, 2023). Within the mentioned research area, an important position is occupied by the area of stakeholder identification, and within this area, the segment of research that deals with the environment as a potential stakeholder stands out. Within the mentioned segment, three main groups of scientific research stand out.

4.1. Papers dealing with defining the environment as a silent stakeholder

The problem of identifying the environment as a stakeholder is largely the result of ambiguities in the choice and definition of the basic term: nature, environment, non-human environment and others, and its positioning within the stakeholder model. Thus, under the term *nature* as a stakeholder certain authors mean flora and fauna, but also the spiritual world (McGrath and Whitty, 2017). Under the term *environment*, others refer to the *atmosphere, hydrosphere, lithosphere, ecosystem processes and all human and non-human life forms* (Driscoll and Starik, 2004: 56). Others point out that the stakeholder approach to sustainability must perceive non-human nature as a partner, whereby the partner provides resources to the organization, but is not a resource in itself (Kortetmäki et al., 2022). In general, strong sustainability perceives the organization as part of the ecosystem (Gladwin et al., 1995, Landrum, 2017). In this sense, Laine (2010) recognizes a fundamental logical problem in the existing scientific literature on the problem of nature as a stakeholder: if man is part of nature, then the organization, as a

human endeavour, is part of that same nature. Given that the umbrella term cannot be at the same level as the term of a lower order, the nature defined in this way cannot also be the stakeholder of the organization. Certain authors completely dispute the idea of nature as a silent stakeholder, stating that nature speaks loudly in the language of natural disasters, diseases, etc. (Kortetmäki et al., 2022). Considering that all entities on Earth are dependent on nature, Waddock (2011) proposes that nature, or the Earth or Gaia, be positioned at the center of the stakeholder model. In the end, Lozano (2014) attributes the status of silent stakeholder equally to the environment, the animal world, and future generations.

4.2. Papers dealing with the status of the environment as a stakeholder

There are four fundamental groups of attitudes related to the status of the environment as a stakeholder of the organization: the first, which categorically rejects the idea that the environment can be a stakeholder, the second, which softens such a rigid attitude by adding that the interests of the environment are advocated by *proxy* representatives, the third, which considers that the interests of the environment are represented by many stakeholders and the fourth, which explicitly sees the environment as a stakeholder of the organization. Norton (2007) believes that there are three fundamental reasons for the lack of recognition of stakeholder status for the environment: subordination to other stakeholders, lack of moral reciprocity and lack of economic relationship between the environment and the organization. Based on the stakeholder identification and salience model designed by Mitchell et al. (1997), the initial lack of recognition of the environment as a stakeholder is primarily based on the interpretation that the environment does not have political and/or moral legitimacy. Orts and Studler (2009) do not believe that the environment can be a stakeholder or that other stakeholders should represent them, or that the stakeholder theory can ever apply to non-human entities, and they call for a new concept *beyond stakeholder management* (Orts and Strudler, 2009: 612) which would be able to answer the ethical questions of modern business. Miles (2017) also opposes the recognition of the environment as a stakeholder, considering such a proposition as the promotion of far-left political views. Opposition to the recognition of stakeholder status for the environment is also explained by the results of linguistic techniques (Lischinsky, 2015). Phillips and Reichart (2000), as proponents of a narrow definition of stakeholders, exclude the environment from the list of stakeholders based on the lack of moral foundation, and consequently the absence of cooperation between the organization and the environment, and consider that the interests of the environment are represented by environmental associations and associations for the promotion of animal rights as their proxy representatives or secondary stakeholders. Hörisch et al. (2013) state that one of the basic tasks in the operationalization of corporate sustainability is to empower various social actors to represent the interests of the environment. The problem with proxy representation lies in the observation that it is the relations with proxy stakeholders which are being managed, and not the relations with the environment itself (Haigh and Griffiths, 2009). Key stakeholders in initiatives related to sustainability are non-governmental associations, various experts, universities, etc. (Boiral and Heras-Saizarbitoria, 2014). Shareholders, employees, and local and national authorities have the greatest influence on companies in terms of the implementation of environmental initiatives (Madsen and Ulhoi, 2001). Schaltegger et al. (2017) introduce the concept of a *value package*, which rejects the hierarchical positioning of goals implying that stakeholders simultaneously value a certain set of economic, social, and environmental goals. Several authors, explicitly, postulate that stakeholders are any natural entities (Starik, 1995, Wheeler and Sillanpaa, 1997, Norton, 2007). Driscoll and Starik (2004) along with power, legitimacy and urgency recognized in the model of Mitchell et al. (1997) also introduce other characteristics such as proximity, i.e., physical closeness, which makes the environment even easier to recognize as the organization's primary stakeholder.

Such a proposition is further strengthened by observing the impact of climate change on the organization (Haigh and Griffiths, 2009). Roberts et al. (2021) advocate a deep ecological approach in which flora and fauna are recognized as the main stakeholders of the organization. Konnin et al. (2022) promote the expansion of stakeholder theory to include non-human stakeholders based on ecocentric, and rejecting anthropocentric ecological environmental philosophies, while advocating building relationships with representatives who would support an ecocentric approach. Kortetmäki et al. (2022) use the concept of recognition in promoting ecocentrism versus anthropocentrism in stakeholder identification. Finally, in one of the attempts to improve the stakeholder model, the environment retains the status of a stakeholder, while environmental protection associations get the status of *stakewatchers*, and regulatory agencies for environmental protection the status of *stakekeepers* (Fassin, 2009).

4.3. Papers that address the compatibility of stakeholder theory and corporate sustainability

Although Sady (2023) confirms Freeman et al. (2010) observation that stakeholder theory and corporate sustainability equally reject the separation of ethics and business, considering the conceptual wanderings, the stakeholder approach does not seem adequate for promoting sustainability goals (Clifton and Amran, 2009). First, given that stakeholder theory does not belong to general moral theories, but to organizational ethics theories, it does not deal with moral evaluations of environmental destruction or human rights violations (Phillips et al., 2005). Second, stakeholder theory advocates prioritizing the demands of the most powerful stakeholders, which rarely include demands in relation to the environment (Barnett et al., 2018). Furthermore, the anthropocentricity of stakeholder theory (Ketola, 2009, Kortetmäki et al., 2022) encourages a worldview according to which it is permissible to instrumentalize nature, i.e., to view it as a resource, instead of as a partner (Tallberg et al., 2019). In this sense, stakeholder theory does not provide answers to sustainability challenges (Valentinov, 2023). Systematizing all of the above, Hörisch et al. (2013) state four basic differences between sustainability management, as an operationalization of corporate sustainability, and stakeholder theory: first, that sustainability management emphasizes the connections between three aspects of sustainability, second, that it emphasizes the ecosystem as the fundamental environment of the organization, third, that sustainability management insists that interactions with stakeholders contribute to sustainability goals and the fourth, to more explicitly insist on ensuring the functioning of the ecosystem. The dubious future coexistence of stakeholder theory and corporate sustainability is well illustrated by the European sustainability reporting standards, which maintain a stakeholder approach where nature is considered a silent stakeholder (European Commission, 2023: 21), while environmental interests are represented by civil society organizations.

5. DISCUSSION AND CONCLUSIONS

Successfully solving sustainability problems in the present will largely determine the quality of life of future generations. Therefore, sustainability issues are positioned at the top of the priority list of today's scientists within several scientific fields. Consideration of the issue of the compatibility of the stakeholder approach to corporate sustainability is one of the small steps that will shed light on the possibilities of operationalizing, that is, bringing to life, in principle, the widely accepted concept of corporate sustainability. From the reviewed literature, it can first be concluded that there are significant differences in the definition of the term that is the subject of this research. Nature, environment, non-human environment, flora and fauna, ecosphere, Gaia, and various other terms were used, often interchangeably, within the subject scientific material. Therefore, the conclusion of a difficult comparison of the views of different authors on the seemingly same topic immediately arises.

When distinguishing between these concepts, it is crucial to consider whether it is an ecocentric perspective, according to which man is part of nature, or an anthropocentric perspective, according to which man exists outside of it. The first perspective is incompatible with the stakeholder theory because it encompasses two concepts, one of which is subordinate to the other. If we accept that man is a part of nature, it is difficult to develop a model according to which the interests of the environment, of which man, and therefore the organization, is an integral part, would be considered in contrast to the interests of man, and therefore the organization. The other perspective, according to which man manages nature and which reduces nature to a resource, is compatible with this theoretical framework, but represents exactly such a worldview, whose uncompromising promotion has resulted in today's problems in the ecosystem. It is especially important to point out that the stakeholder theory emerged together with the strengthening of the corporate social responsibility movement, which is significantly different from the concept of corporate sustainability. Despite the clearly expressed position of the founder of the stakeholder theory, it is much easier to draw parallels between stakeholder theory and corporate social responsibility than between stakeholder theory and corporate sustainability. Corporate social responsibility indirectly enables the perpetuation of the worldview according to which business comes first, insofar as it postulates that the company is responsible for minimizing the negative effects of business on society. Although it must be admitted that it is a quantum leap in relation to the formerly dominant worldview according to which a company has responsibility only towards its shareholders and the positive regulations of the country in which it operates, it is still a concept that does not sufficiently recognize the urgency of preventing the reduction of natural capital, which can be greatly attributed to corporations. While corporate sustainability insists on the introduction of elements of sustainability into the business models of corporations, corporate responsibility insists only on damage control, i.e., remediation of the consequences of operations which, at its core, are aimed at satisfying the interests of the company's stakeholders. The problem of the anthropocentricity of the stakeholder theory was noticed at a relatively early stage of the debate about the environment as a silent stakeholder and remains one of the primary criticisms of this theoretical framework. Nevertheless, the increasingly strong ecological attitudes of new researchers are seriously challenging the once dominant view of the absence of each of the three characteristics that would enable the identification of the environment as a stakeholder. The concept of corporate sustainability balances economic, social, and environmental goals, and therefore the anthropocentricity of the stakeholder theory is imposed as an excluding criterion for the application of this approach to solving sustainability problems. All later interpretations of the role of the environment in this theoretical framework followed the same direction, with convincing arguments. As the most compatible with the stakeholder theory, the interpretation of several authors, especially the early ones, is imposed, which does not allow the environment to have stakeholder status due to the lack of awareness and reciprocity in relationships. In this sense, the question arises whether stakeholder theory, without drastic redefinitions of its fundamental constructs, such as nature or the stake itself, can still be used in the operationalization of corporate sustainability. Proposals to use proxy representatives for environmental interests deserve special consideration. First, it remains unclear who would legitimize certain environmental protection associations to represent their interests. If, for example, trade unions are authorized by their members, and institutional investors are authorized by their investors, the question is who would authorize a particular association to represent the interests of the environment. Another question is to whom such an association would be responsible and according to which key performance indicators. If poorly performing unions will lose their members or change their leadership, and institutional investors will lose their investors in favor of other similar organizations, the question is who will assess the quality of the environmental protection associations' operations and initiate consequences like the

above. Also, the question arises as to why the governments, through regulators or other dedicated agencies, would not be the ones to represent the interests of the environment. Therefore, without in any way questioning the best intentions of exceptional people fully dedicated to the work of environmental protection associations, one must conclude that the idea of proxy representation of the environment is inherently illogical. Such a conclusion is supported by the experiences of recent years, according to which large corporations proudly emphasize stakeholder dialogue with various environmental associations while at the same time only minimally changing their established business model in favor of sustainable practices. Bearing in mind all the above, the idea of abandoning the dedicated protector of environmental interests looks much more advanced. The question to what extent certain stakeholders will deprioritize their own immediate economic goals in favor of environmental goals that are more distant in time and therefore more difficult to perceive is ultimately a question of the evolution of human consciousness. It is unclear how much an increase in the price of own input, caused by a change in the business model of one's own supplier in favor of more sustainable practices, will be accepted by the clients of a corporation, bearing in mind that they also simultaneously manage the economic, environmental, and social aspects of their own corporate sustainability. The next observation refers to the temporal dynamics of scientific works from the sample. Although the problem of identifying the environment as a stakeholder was identified in the initial stages of the development of this theory, it has not been decisively resolved even today, which is evident from the stable number of scientific papers in the entire observed period. Insisting on finding a solution to the problem in question, regardless of the low probability of such a solution, is certainly a testament to the rootedness of stakeholder theory in modern strategic management. On the other hand, new researchers bring views on the topic that are informed by the further deterioration of natural capital, that is, by the greater urgency of the problem. Although the stakeholder approach represents progress in relation to the neoclassical shareholder-centric view of the company's purpose, it still retains an anthropocentric ontological perspective and is therefore poorly positioned to promote corporate sustainability. If modernism is disqualified by a cynical resource view of the environment, and post-modernism by its epistemological relativism that makes unification around a common action plan impossible, there is still no new paradigm in sight that would convincingly unite the apparently incompatible ideas of economic development and at least of conservation, if not restoration, of natural capital. Within such an environment, several theoretical frameworks, including stakeholder theory, pivot with varying degrees of success to address challenges in the field of corporate sustainability. Stakeholder theory is deeply rooted in strategic management practices, so its obvious inadequacies are currently being ignored to make practical use of its potential to promote concrete action in the field of corporate sustainability. In this sense, it would be interesting to explore the possibilities of designing a model for sustainability management using a stakeholder model whose focus would not be the organization, but a model that would consist of a series of interconnected multi-stakeholder constellations, which would bring this theoretical framework closer to the system theory. Most scientific works from the observed sample belong to American and Western European authors. Considering the cultural differences in relation to the environment between pre-industrial, industrial, and post-industrial countries, as well as religious differences in the treatment of the environment, it would certainly be interesting to increase the number of scientific works from Asian and African countries. Nor is the concept of corporate sustainability a definitively defined term. Soft sustainability, which is its predominant form today, may only be the first incarnation of this concept and may represent only a starting point towards stronger forms of sustainability. In this sense, it is expected that the level of compatibility of stakeholder theory and corporate sustainability will only decrease in the future.

In anticipation of the advent of a new paradigm, the question arises as to which of the existing theoretical frameworks can provide the most answers to questions of corporate sustainability. Neo-institutional theory proves to a large extent capable of explaining the behavior of organizations towards certain segments of corporate sustainability, especially towards corporate sustainability reporting. Unfortunately, this theory does not offer any models for the operationalization of sustainability management and therefore does not have the necessary applicative benefits. Nevertheless, it is necessary to examine whether progress can be made by amalgamating certain segments of several existing theoretical frameworks, some perhaps even outside the field of economic science, such as systems theory. In the absence of such solutions, it is interesting to consider the slow evolution of the stakeholder approach towards an *enlightened* stakeholder approach characterized by the insistence on the concept of long-term value. In any case, the *status quo* does not provide much optimism about the ability of the existing theoretical framework to satisfy the interests of both current and future generations. The limitation of this research is the inclusion in the sample of only those papers written in English. Equally, due to the extensiveness of works dealing with stakeholder theory, there is a possibility that, despite the efforts of the author, not all relevant scientific works on the subject are included.

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BUSINESS STRATEGY RISK MANAGEMENT OF MARINAS, CASE OF COVID-19

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ABSTRACT

Crisis situations are a fact of dynamic business relationships in which business operations take place. All of this requires changes in management, primarily in the sense of making long-term sustainable crisis-resistant decisions, faster but correct operational decisions, as well as better use of e-technology and education. In the business of Croatian marinas, as a subtype of nautical tourism port, the decisions of the management, as well as the owners, are crucial for business success in times of crisis, such as the COVID-19 pandemic. The COVID-19 pandemic, although it came in waves, caught many off guards, not only entrepreneurs and marina managers, but also states. At the same time, the strategic decisions of the owners and managers of one part of Croatian marinas proved to be resistant to the pandemic, while others showed a high degree of vulnerability. Under these conditions, the reactions of the EU member governments were different when it came to marinas, and through the actions of the governments, significant differences in the macro-national systems of developed countries and countries in transition became apparent. The purpose of this research is to show the differences in the strategies of marinas that contain elements of resistance to crisis situations, such as the COVID-19 pandemic. The research that will be carried out in this paper is focused on the differences between Croatian marinas, that is, management and owners who determine long-term strategies and lay the foundations of risk management. Observed in terms of the macro relationship between the state - marinas, the research will be extended to certain knowledge of the relationship between the German marinas and the state. At the same time, the use of e-technology, specifically SAP capabilities, is a question that this research will answer. The expected results of this research show significant differences between Croatian marinas, in terms of business strategy, the desire for better financial results, and thus an increase in business risk. Also, the comparison between Croatia and Germany shows significant differences arising from macro-national systems as well as the degree of use of e-technology.

Keywords: *e-technology COVID-19, marines, state, strategies*

1. INTRODUCTION

The basic characteristic of entering an entrepreneurial venture is the conscious assumption of risk. In accordance with the complexity of the field of entrepreneurship, the risk becomes more complex and wider, which means that entrepreneurship in tourism assumes numerous risks, especially risks related to the sensitive emotional tourist market. Regarding nautical tourism, it is necessary to differentiate the risks that manifest themselves differently within the three basic subtypes of nautical tourism (nautical tourism ports, charter, and cruising). The business of marinas, as the most developed type of port for nautical tourism and charters, is closely related

and interdependent. The development of Croatian charter over the past ten years has promoted Croatian charter to the very top of the world, and Croatian marinas are also at the top of European quality. Without going into comments or criticism, Croatian tourism is the national economic foundation, and nautical tourism is of particular importance for the Croatian coastal economy. At the same time, marinas and charters play a special role, because they often assume the role of local leader around which development takes place. This phenomenon is especially important for smaller towns on the Croatian coast, i.e., towns outside big cities. After the Homeland War, the business of marinas and charters is on the rise, and crisis situations became a matter of usual and acceptable risks for owners and managers until 2020, when the COVID-19 pandemic caught everyone unprepared, starting from the state and ending with entrepreneurs, i.e., owners and managers marina and charter companies. The risk imposed by the pandemic has given rise to numerous problems in the relationship between the marina - the charter company - the state, and vice versa. Without going into the issues of the situation imposed by the pandemic on the state administration as a subject from which entrepreneurship expected help, including marinas and charters, this research will focus on the analysis of marinas under the conditions of the risk of COVID-19. Considering the methodology of this research, numerous analyses created after the pandemic will be used, as well as marina reports that are the subject of this research. The purpose of the research is to analyse the risk management strategies of marinas, and the goal is to valorise the factors that make certain strategies resistant and some non-resistant to relatively sudden crises that threaten the operations of marinas. The hypothesis of this research is the assertion that certain strategic management decisions make marinas resistant to crises, while some others seriously threaten the business and development of marinas. What kind of strategies are involved will be shown in the research that will be carried out in this paper.

2. STRATEGIC RISK MANAGEMENT

Given that strategic risk management is not a common topic in Croatian theory and practice, it is advisable to explain what strategic risk is, in order to explain strategic risk management more easily.

2.1. Strategic risk

The decision to enter an entrepreneurial project carries a fundamental investment risk, which is then broken down into numerous groups of risks, one of the key ones being strategic risks. In short, strategic risks are risks that a company takes that can potentially result in a large loss (Rost, 2024). So, we are dealing with the types of risks that not only threaten the future success of companies, but also their survival. There are several strategic risks to consider, from legal and regulatory changes to merger integration. Given the types of strategic risks, organizations must determine which strategic risks could have the greatest impact. Theoretically, strategic risks can be divided into internal and external, and within each of these risks there are subtypes of strategic risks.

Figure following on the next page

Figure 1: Types of strategic risks observed through internal and external strategic risks (Source: Cascade Strategy: (2024))

As can be seen from the picture, external risks represent a special group of strategic risks that, like all others, need to be detected, evaluated and adequate managerial decisions made.

2.2. External strategic risks

External strategic risks refer to the current or planned environment in which a product or service is being developed. For example, the marina is developing the technology of taking lubricating motor oils, which as an investment and investment in the future puts a significant burden on the marina's finances, and soon solar-powered vessels may appear, which reduces the use of motor oils. This leads to a decline in commercial interest for project in marina motor oils recovery technology, leaving the marina business in a completely different position than might have been expected. Therefore, the rapid evolution of technology could cause new products to become obsolete very quickly, and investing in a new product could be an investment without business success, which leads the marina to serious financial difficulties, loss of income and reputation. External risks are classified into four basic risk groups: (Godfrey, et al., 2019, p. 34).

a) **Regulatory risks** represent a group of risks that come from legislation, that is, laws and by-laws. In principle, their occurrence in developed countries and economies is rare, but in economies in transition it is present and pronounced. Some industries, such as the marina's industry, are very vulnerable to the emergence of regulatory risks. That is, the marina develops and operates on maritime property, for which it pays the state a concession. The concession period for marinas is about 30 years, after which the Croatian marinas expect an extension of the concession, as, for example, the state protects Italian, French, and Spanish marinas. Accordingly, at the end of the expiration of the concession, the Croatian marina expects a logical extension and invests in the marina, but the state suddenly passes the Law

on Maritime Property and Sea Ports, which opens the possibility of terminating the concession and taking over the marina with minor compensation. In such conditions, the regulatory risk for marinas in Croatia is high.

b) **Competitive risks** represent risks that come from better or similar services or products from competitors. In terms of the risk of marina competition, competing Italian marinas can be mentioned, which are significantly less capacitated than Croatian ones. The reason is the better quality of services as well as the slightly more favourable prices of Croatian marinas along with the more beautiful coast of the Croatian Adriatic. Such a relationship can change for various reasons and represents a potential risk, either for external or internal reasons. Therefore, it is necessary to constantly monitor the risks of competitors because the existing position of the marina can change quickly and significantly.
c) **Economic risks** belong to the group of more difficult to predict risks. Harder predictability is associated with threats that occur unexpectedly, although the question is whether it is still possible to overlook them, since they are earthquakes, pandemics, floods, but also wars and other crises that leave large financial losses behind. A good example is the COVID-19 that hit the economies of the world, including the Croatian marinas. As is known, Croatian marinas are categorized into 4 categories, each of which has its own clientele. Boaters with significantly higher incomes come to highly categorized marinas, while boaters with lower incomes come to lower categorized marinas. Research shows that the family budget is an important factor when choosing a marina, which means that in the case of income stratification of citizens, one group of sailors may find themselves in conditions where they have to use lower or higher categories of marinas. This means that within the endangered category of marinas, an economic risk arises due to the transfer of boaters to another category of marinas. Therefore, it is necessary to observe changes in the market of clients who come to Croatian marinas to know what the target audience wants, what are the spending habits within the budget available to sailors, lifestyle, financial situation in a broader sense and more. As stated, the group of economic risks can include risks from health threats that disrupt the movement of tourists, such as the COVID-19 pandemic in 2020.
d) **Political risks** arise from changes in government policies, regulations, geopolitical events, such as wars or security instability. These risks can affect companies that operate in the country or abroad, which means that they significantly affect Croatian marinas because the sailors who come mostly from other countries. The political instability in Europe directly affects the business of the marina because the sailors' decision to leave is met with a higher degree of fear of leaving their homeland. Therefore, Croatian marinas must closely monitor political events in Croatia, as well as outside Croatia, and develop plans for unforeseen situations to effectively manage political risks.

To overcome external risks, as well as internal ones, it is necessary to develop strategic risk management in the company.

2.3. Strategic risk management and strategic sensitivity

There are numerous definitions of strategic risk management. For example, Harvard Law School (2012) states: “Strategic risk management can be defined as the process of identifying, assessing, and managing risk in an organization's business strategy, including taking prompt action when the risk is actually realized.” Furthermore, Harvard Law School points out that strategic risk management is focused on the most significant risks and risks with significant consequences for shareholders, as well as on the area that deserve the time and attention of the company's executive management and board of directors (Tonello, 2012). It also states that strategic risk management is the process of identifying, quantifying, and mitigating any risk that affects or is significant to the company's business strategy, strategic goals and strategy

implementation (Rost, 2024). Analysing strategic risk management (Strategic Risk Management, SRM) as well as enterprise risk management (Enterprise Risk Management, ERM), Mark L. Frigo & Richard J. Anderson state: "Strategic risk management is the process of identifying, assessing and managing risks and uncertainties that affected by internal and external events or scenarios, which could impede the organization's ability to achieve its strategy and strategic goals with the ultimate goal of creating and protecting value for shareholders and stakeholders. It is the primary component and necessary basis of Enterprise Risk Management (ERM)." (Frigo & Anderson, 2011, p. 22). From the above definitions, it can be concluded that all of them warn of a high level of risk that penetrates the core of strategic goals, putting strategic management decisions to the test. Given the significant exposure to risk over the years, including frequent financial and banking crises, health threats, both human and animal, have increased the risk. Climate changes, in addition to all of the above, have led to an accelerated focus on strategic risk management. An important characteristic of strategic risk management is its focus on major damages that may occur under the influence of one of the upcoming disasters. Therefore, an effective strategic risk management framework should prioritize understanding the risks that the company's business is facing to take the necessary steps to protect assets and operations, and ultimately the company's survival. Regarding industries, management decisions differ, which ultimately affects the results in the event of a crisis. Management decisions go deep into strategic risk management and make companies sensitive to threats. A good example is the marinas in the crisis of the COVID-19 pandemic, where the decisions of management and owners determined the degree of sensitivity to the threat, which resulted in a financial result. However, in accordance with technological development, it is possible to predict the arrival of a threat and develop a strategic risk management system to make the business result as good as possible.

3. SAP IN THE FUNCTION OF PREDICTIVE STRATEGIC RISK MANAGEMENT

Companies with advanced perspectives of risk and mature risk management practices recognize that risk is present throughout their entire enterprise. For global enterprises, new market expansion adds yet another layer of complexity as dynamic markets drives a proliferation of new regulatory requirements. The adoption of cloud, big data, mobile technologies, and the changing compliance landscape leave many organizations unable to manage risk effectively and efficiently across their core business processes. Most companies also lack the tools and technology to effectively leverage the massive amounts of data being generated by their business as well as the market. The ability to develop strategies to better manage risk across these core business functions is critical to protect the enterprise, improve overall performance and protect shareholder value (2021, p. 3).

Figure following on the next page

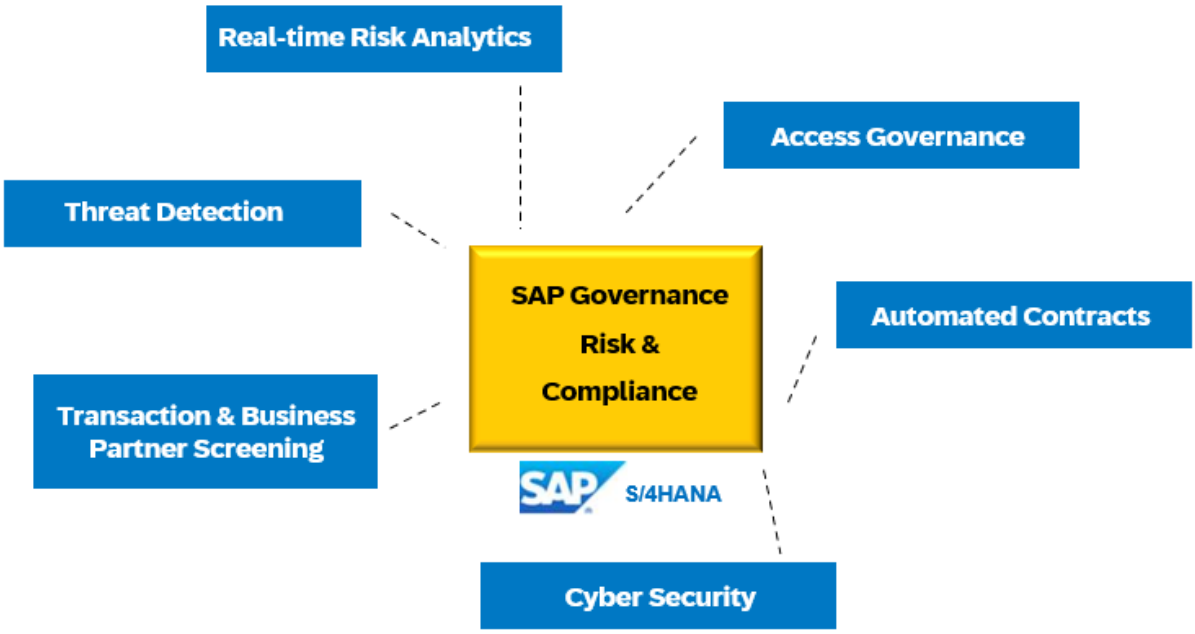

Figure 2: End-to-End Compliance for Core Business Activities
(Source: Training Material SAP GRC340)

3.1. The problem of risk management

Risk managers are typically responsible for ensuring that a consistent risk management process is followed throughout the organization. However, the risks are "owned" by the lines of business. As a result, risk managers constantly struggle with tracking the progress of responding to risks. The Lines of business typically do not think about risks as you would from a compliance perspective, but about meeting their performance objectives. They tend to receive several surveys or assessment requests from different groups that ask similar questions (that is, risk management, audit, IT security, business continuity, and so on). Typically, the business units come up with good solutions to address the risks they know about, but only those risks. They have absolutely no visibility into risks outside of their silo that could negatively affect them. Risk mitigation efforts that are successful are often one-offs and are typically never reapplied to other regions or similar business units. Executives and directors are mainly concerned with market expectations and delivering the strategy. Risk is often not specifically addressed during management meetings. As a result, executives are do not know if any negative surprises will keep them from meeting their projections until it is too late (SAP Risk Management, 2021, p. 22).

3.2. SAP Risk Management Proceed – An Overview

Risk Planning: Risks should be defined within the context of value to the organization. Define the basic parameters within which risks are to be managed. Establish the external context (External stakeholders, Key business drivers, etc.). Establish the internal context (Capabilities in terms of resources such as people, systems, processes, and capital).

- **Risk Identification:** Comprehensive identification using a well-structured systematic process is critical because a risk not identified at this stage may be excluded from further analysis. Identification should include risks whether they are under the control of the organization.
- **Risk Analysis:** Risk analysis involves consideration of the sources of risk, their positive and negative consequences, and the likelihood that those consequences may occur. Factors

that affect consequences and likelihood may be identified. Risk is analyzed by combining consequences and their likelihood.

- **Risk Response:** Reducing the risk by changing the likelihood of the risk, thereby reducing the likelihood of the negative outcomes. **Avoiding the risk** by deciding not to start or continue with the activity that gives rise to the risk (where this is practicable). Risk avoidance can occur inappropriately if individuals or organizations are unnecessarily risk averse. **Transferring (or sharing) the risk** with another party. Mechanisms include the use of contracts, insurance arrangements, and organizational structures such as partnerships and joint ventures to spread responsibility and liability. **Accepting (or retaining) the risk**. After risks have been changed or shared, there will be residual risks that are retained. Risks can also be retained by default, for example, when there is a failure to identify, appropriately share, or otherwise treat risks (SAP Risk Management, 2021, p. 32).

To provide continuous insight into the risks, one or more Key Risk Indicators (KRIs) can be implemented. Essentially, a KRI is a forward-looking measure that provides a basis for estimating the likelihood of the risk. A KRI can be quantitative, such as turnover rate for a business unit, or qualitative, such as the adequacy of a system. To be useful, a KRI must always be linked to one of the risk drivers (or cause) (SAP Risk Management, 2021, p. 227).

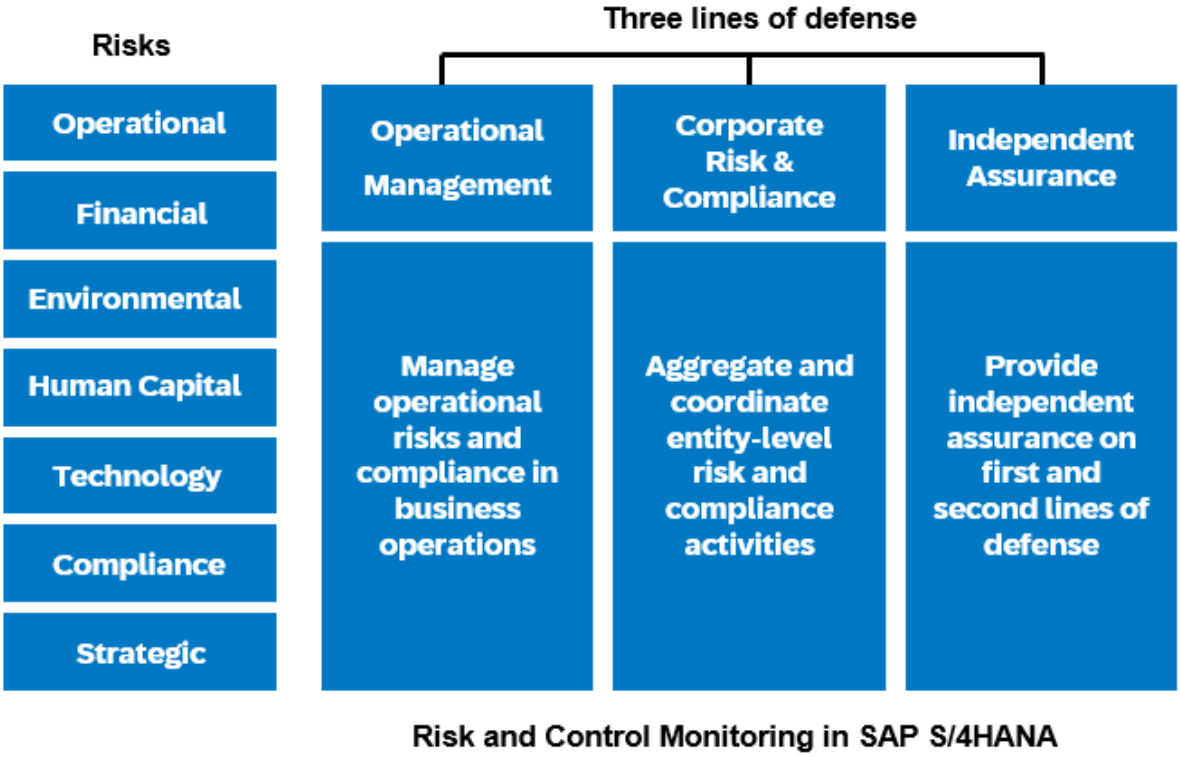

Figure 3: Risk Analysis in SAP S/4HANA
(Source: SAP documentation Risk Management, 14.01.2024)

With the SAP application RISK MANAGEMENT, risks can be planned, risks that arise can be documented and countermeasures can be initiated. The identified risks and their countermeasures can be monitored and evaluated. This means that risks can be planned and controlled, even at a strategic level.

4. COVID-19 AND OPERATIONS AND STRATEGIES AS A FUNCTION OF THE RISKS OF CROATIAN MARINAS

The COVID-19 pandemic is an unfavourable feature of 2020. This pandemic has affected the economies of the whole world, and it is often said that it appeared suddenly and that it was impossible to predict and therefore not even prepare for it. This attitude is not correct, because research has shown that some research companies predicted the crisis, reported to their governments, which activated protection measures. This is a characteristic of the developed countries of the world in the EU, which have good contact with scientific institutions and scientists. For example, the research company Gartner states: "Corona virus is exactly the type of risk that appears quickly with uncertain consequences that can be ignored until it is too late for traditional escalation procedures to be effective. When reports of the quarantine came in from China, most organizations in the West had weeks to act on the information but decided to wait and see." So, right from the start, COVID-19 proved that the threshold for escalation was too high and hit the business operations that were seriously affected by it. Therefore, better prepared companies readily responded to the news of minimal spread of the pandemic and prepared themselves before the situation worsened. For many companies, ERM as an activity that is woven into management, has been following unfavourable situations for decades, and many have realized that the COVID-19 pandemic shows the need for attention and a strict approach. In this regard, Gartner's research states that it is necessary to respond to threats such as the COVID-19 pandemic: (Gartner, 2024)

- An agile "influence-based" approach to creating procedures for crisis escalation.
- Acknowledge reports from the business leader responsible for monitoring a specific type of risk that provides clear, simple guidance on when it is appropriate to escalate risk information to the crisis management team.

Thus, developed ERM teams raise a protection system in which SRM plays a special role, while the role of controlling and e-technology is paramount. Appreciation of scientific and professional research is a prerequisite for success, and the agile management approach has a positive operational effect on the upcoming threat and the risk of it. Given that controlling is almost unknown in Croatia, the development of e-technology is relatively low, and the appreciation of research is at a low level, the threat of the COVID-19 pandemic remains unpredictable. Therefore, in the business of Croatian marinas, as well as the so-called *marina business* (Luković & Piplica, 2020), as a defence tool against the threat of the COVID-19 pandemic, a business strategy was activated that assumed the function of strategic risk management. Here, regarding the operation of marinas, we are dealing with two different business strategies, but to understand their significance, it is necessary to state the basic characteristics of the subject of this research, Croatian marinas. Regarding the *marina business*, the COVID-19 pandemic brought the Croatian charter to its knees in 2020. As stated, Croatia has the largest charter fleet in the world, and the Croatian charter fleet has officially registered 4,378 yachts and vessels (Večernji list, 2019). According to official data, 2,762 charter companies are registered in Croatia, of which 930 are active (MMPI, 2020). Charter companies in Croatia rent 1,956 vessels, 2,166 sailing yachts and 256 motor yachts (Večernji list, 2019). With regard to the number of boaters' nights spent on charter, the Split-Dalmatia County is the most represented, with 45% of charter nights (HTZ, 2019, p. 7). However, under the conditions of COVID-19, the business of charter companies proved to be vulnerable, and in the north of the Croatian Adriatic there was a drop in business of about 35%, viewed as 2020/2019, and in the south of Croatia there was a drop of over 65%. Therefore, the result of the charter in the conditions of COVID-19 came because of a business strategy that could not oppose the pandemic of COVID-19.

Marinas, as the basic segment of the *marina business*, are an important factor in the economy of the Croatian coast. In 2020, 64 marinas of all categories were registered, both old (1-3 stars) and new (1-4 anchors). Of these, ACI, as a predominantly state-owned marina system, had 22 marinas, while the remaining 42 marinas were privately owned. Nautical tourism ports, mostly marinas, operated on 4,593,435 m² of water area and had 18,625 berths (DZS, 2020). Given that the reports of the State Bureau of Statistics regarding the number of berths do not distinguish marinas from the rest of the nautical tourism ports, a special study was conducted which for 2019 showed that of the 18,179 berths (DZS, 2020)of the ACI nautical tourism port, 22 marinas have 5,882 berths, while 39 private marinas have around 9,800. Berths (Anić, et al., 2021). This data, at least in a relative relationship, can be transferred to the next year 2020, which would mean that ACI is still an important subject of Croatian marinas, but not decisive, because private commercial marinas dominate. Considering the structure of Croatian marinas, business strategies in 2020, with regard to COVD-19, turned into strategic risk management tools.

This is about two conflicting business strategies implemented by the management of Croatian marinas:

a) Strategy in which marina operations are based on berths in transit,
b) Strategy in which marina operations are based on contract berths.

Although at first glance the differences do not appear to be significant, the COVID-19 pandemic has shown that there are still significant differences, which were referred to through the financial results of operations.

5. STRATEGIC SENSITIVITY AND MANAGEMENT DECISIONS

The difference in strategies that focus the marina's operations on berths in transit have a certain advantage and a better result than contract strategies, but in conditions of threat, such as the COVID-19 pandemic, they show a high degree of strategic sensitivity and risk. The following analysis explains what it is all about.

5.1. Static analysis of economic profitability of strategies

There is an important economic difference between the two mentioned strategies, which affects the management of Croatian marinas. Given that income from vessel berths makes up most of the marinas' income, this berth strategy is of crucial importance. Research shows that revenues from berths together with service in marinas are generally positive, while all other contents come as management's striving for service quality and are often negative, but they must be in the marina due to the wealth of contents offered in marinas (Luković, 2024). Also, the prices of berths in all marinas, regardless of category in the season, are similar, which indicates the importance of the strategy of dealing with berths in the marina. The following analysis shows the difference between the strategies of using marina berths, with the condition of a stable market, thus operating in a risk-free environment. A strategy in which business is based on berths in transit represents a type of strategy in which marina management is oriented to berths in transit, and less to berths under contract for a period of one year. There are many reasons for such a management decision, and above all, it is an assessment of economic profitability. The economic profitability analysis will be carried out on the example of three marinas that are categorized as marinas of the highest category, i.e., ACI marina Opatija and marina Frapa Rogoznica are marinas of the first category, while marina Pomer is of the second category. Static analysis shows the differences in the price of berths, as the basic variable of income from berths.

Marina	Yearly	Monthly	Daily		Converted into daily connections, and the daily connection profitability index				
					Yearly	Index	Monthly	Index	Daily
Frapa	7.690	1.305	82		21,1	388,6	43,5	188,5	82
Opatija	6.210	1.346	76		17,0	447,1	44,9	169,3	76
Pomer	5.986	1.064	98		16,4	597,6	34,5	284,1	98

Table 1: Average price of berths for 2023 according to the time criterion (in euros)
(Source: official prices of marina berths, taken from the Internet.)

From the calculation in the table, it can be seen, that ACI marinas, Opatija and Pomer have a significantly higher price of daily berths than the calculation of the average daily berth from the annual berth price. At the marina Frapa Rogoznica marina, this difference is significantly lower, which favours the prices of the annual berth. Therefore, the marinas of ACI, marina Opatija and marina Pomera have a significantly higher daily berth price than the calculated price of daily berths from the annual (497.6% and 347.1%) and monthly (69.3% and 184.1%) daily prices. This indicates a greater focus on revenues from daily berths than revenues from annual berths. At marina Frapa Rogoznica, the opposite is true, which indicates an orientation towards an annual berth, i.e., a year-round contract for a berth. The question arises as to what the daily berth strategy looks like in accordance with the marina's seasonality. That is, if it is known that the season of active work of marinas and the arrival of sailors in Croatian marinas begins around Easter and ends in October, it is concluded that the work of marinas that operate with daily berths lasts 6 months, which means that the efficiency of daily berth prices, viewed through annual income, drops by about 50%.

Marina	Converted into daily berth for 6 months and daily berth profitability index						Daily 50% (365)	Index D/Y
	Yearly	Correction	Monthly	Correction	Daily	Correction		
Frapa	21,1	10,6	43,5	21,8	82	41	14.965	194,6
Opatija	17,0	8,5	44,9	22,5	76	38	13.870	223,3
Pomer	16,4	8,2	34,5	17,3	98	49	17.885	298,8

Table 2: Average berth prices in 2023 regarding seasonal occupancy (in euros)
(Source: official prices of marina berths, taken from the Internet.)

From the above table, the prices of daily connections are reduced by half, and thus the indices of economic profitability. Nevertheless, in the end, the daily berth strategy brings significant benefits compared to the annual price of berths, so the marina Opatija with a daily berth strategy of 82 euros must count on an average of 42 euros in 365 days to reduce usage by 50%, but even with such a reduced amount daily berth earns 13,870 euros per year. This amount is even 123.3% higher than if the income from the annual berth were realized on that berth. Therefore, it can be concluded that the daily berth strategy is significantly more economically profitable than the strategy of links to the annual contract. However, if the question arises of the overall economic success of the marina, then the overall management of the marina should be considered, in which the strategy related to berths is only one of the elements of success. In this regard, research shows that private marinas are economically more successful than the ACI chain of marinas, so for example, in that research it is stated: "Based on the original data for 2019, ACI's earnings before income tax were HRK 39 million, while together, marina Frapa and marina Punat, in the same period, achieved around HRK 30 million with less than 1,500 berths.[1]

[1] Original balance data obtained by direct contact with marinas.

Therefore, ACI made HRK 6.6 thousand in profit per one berth, while marina Frapa and marina Punat together made HRK 20 thousand in profit per berth, or twice as much as ACI." (Luković, et al., 2021, p. 14). From the above, it can be concluded that private marinas with one owner and with one management that is under the 24-hour supervision of the owner, they have better results than a chain of marinas with dispersed management and a low level of supervision. Given that the topic of this research is the difference in strategies in crisis situations, the question arises about the vulnerability of two opposing strategies, the strategy focused on the daily berth and the strategy focused on the annual berth contract.

5.2. Strategies in crisis conditions, example of COVID-19

The previous analysis showed the advantage of the daily berths' strategy compared to contract berths, which is achievable under risk-free business conditions. Nevertheless, significant crises shake the market more and more often, including the marina market, which points to the conclusion about the relative advantage of daily berths strategies. Therefore, it is necessary to analyse what 2020, as the year of the COVID-19 pandemic, showed. In this regard, the results of the ACI marinas' chain and the marina Frapa Rogoznica in 2019 and 2020 will be compared.

Indicators	ACI Opatija		Differences	Index 2020/ 2019.	Marina Frapa, Rogoznica		Differences	Index 2020/2019
	2019.	**2020.**			**2019.**	**2020.**		
Berths, total	5.913	5.865	-48,0	99,2	650	612	-38	94,2
Berths, coast	586	586	0,0	100,0	150	150	0	100,0
Berths, sea	5.327	5.279	-48,0	99,1	500	462	-38	92,4
Berths for charter*	-	-	-	-	28%	28%	0	100,0
Surface area of marina, total (m²) *	1.346.892	1.346.892	0,0	100,0	183.834	183.834	0	100,0
Surface area under concession (m²)	1.346.892	1.346.892	0,0	100,0	166.062	166.062	0	100,0
Yearly berths *vessel/days	1.353.801	1.322.411	-31.390	97,7	none	none	0	-
Transit*	100.543	59.848	-40.695	59,5	none	none	0	-
Employers	341	340	-1	99,9	101	101	0	100,0
Seasonality employers	61	43	-18	70,5	45	20	-25	44,4

Table 3: Business results of ACI and marina Frapa Rogoznica for 2019 and 2020, viewed through the basic segments of the business structure.
(Source: original results from ACI and marina Frapa)

Note for ACI:

- Charter company berths are not separately highlighted in the report
- The given data is expressed in ship/days, which is a representation of the vessel's stay in the marina.

Note to Frapa:

- data on permanent berths and berths in transit by ship/days is not available.

As can be concluded from table 3, the physical indicators of ACI and the marina Frapa did not change significantly in 2019 and 2020. The noticeable change is the size of realized ship/day berths in transit, which at ACI and marina Frapa simply halved.[2] Therefore, the question arises as to what this means for the overall business result of the mentioned two subjects of this analysis.

Indicators (in thousands of kunas)	ACI Opatija		Difference	Index 2020/2019.	Marina Frapa, Rogoznica		Difference	Index 2020/2019
	2019.	**2020.**			**2019.**	**2020.**		
Income, total	237.410	185.532	- 51.878	78,1	52.085	49.308	- 2.777	94,7
Profit before tex	39.176	517	- 38.659	1,32	13.230	12.772	- 458	98,5
Total payment to the stare*	19.811	9.587	-10.224	48,4	17.269	15.679	- 1.590	90,8
VAT 25%*	63.042	55.200	- 7.842	87,6	13.574	12.820	- 754	94,4
VAT 13%	80	70	-10	87,5	642	606	- 36	94,4
Parafiscal charges*	1.309	1.272	- 37	97,2	2.679	2.266	- 413	84,6
Concession fixed (m2)	1.754	1.889	135	107,7	83	83	0	100,0
Concession variable (%)	5.781	4.627	-1.154	80,0	1.110	812	- 298	73,2

Table 4: Basic financial indicators of ACI and marina Frapa, Rogoznica, for 2019 and 2020 (Source: original results of ACI and marina Frapa)

From the comparative indicators of the operations of ACI and marina Frapa in 2020, in relation to 2019, it can be concluded that the marina chain ACI experienced a real disaster in the statement of profit, while marina Frapa moves in all performance indicators with 5 - 15 % unfavourable differences in 2020 compared to 2019. So, the difference is obvious, and it stems from the business strategy of ACI, which in the revenue structure has 63.5% of revenue from transit. At the same time, ACI's transit fell by more than 50%, which simply cut its income in 2020. That is, the structure of charter income is unfavourable for ACI, which is 30.8% of all ACI's income in the years of risk-free operations, and in the pandemic 2020. charter with ACI physically fell to 11%. Therefore, the problem of the charter as a segment of the strategy on the contract, with the management and the owner who decides on the strategies of ACI, should be investigated separately. At the same time, at the marina Frapa, the business structure is significantly different, and thus more resistant to the threat of COVID-19 in 2020. Revenues from moorings in transit at marina Frapa in the year of regular operations in 2019 accounted for only 9.7%, and in the pandemic 2020 there was a drop of about 50%, which did not significantly threaten the total income of the marina. Looking at the structure of income in 2020, the marina Frapa experienced a significant drop in catering, of around 50%, and an even bigger drop of 125% in “other services for boaters”. Nevertheless, this decline was inevitable, but considering that both income items in the structure make up only 14% and 3%, respectively, it did not seriously threaten the marina's annual income. Therefore, it can be concluded that the business strategy of the marina Frapa makes the business structure much more resistant to the threat of COVID-19, than the ACI strategy focused on the daily berth, and therefore its business structure is more market sensitive and vulnerable.

[2] For marina Frapa, this can be seen from the income in table 4, because we do not have the vessel/days data.

Therefore, it is necessary to analyse the business structure of the marina Frapa, which has developed as a result of the strategy focused on the annual berth contract.

	Segments of the business structure	**2019.**						**2020.**	
		Income	Income structure	Employed	Contributions to the state	Structure of Contributions to the state	Profit before tax (EBIT)	Income	Income structure
1	Berths in marina	28.442.613	54,6	30	7.622.640	59,0	9.414.136	*27.719.735*	57,6
2	Vessel service	8.756.339	16,8	25	2.312.552	17,9	2.240.988	8.987.646	18,7
3	Hospitality	4.469.893	8,6	25	1.173.470	9,1	*-1.603.984*	*2.193.089*	4,6
4	Special services	699.964	1,3	6	177.690	1,4	349.982	*773.656*	1,6
5	Rent	5.798.490	11,1	2	1.037.521	8,0	1.500.000	*4.339.296*	9,0
6	Income in the Captain club	36.974	0,1	0	9.982	0,1	3.600	*32.436*	0,1
7	Financial income	2.791.073	5,4	0	-*	-*	1.799.393	*1.799.393*	3,7
8	Exchange	102.988	0,2	1	2.060	0,0	60.000	*63.559*	0,1
9	Other extraordinary income	987.576	1,9	0	-*	-*	-*	*2.221.560*	4,6
	Total:	**52.085.910**	**100,00**	**101**	**12.927.317**	**100,00**	**13.304.252**	***48.130.369***	**100,0**

Table 5: Basic indicators of the business structure and operations of the marina Frapa, Rogoznica in 2019 and 2020. (in kunas)
(Source: created by the authors)

Note: The income of the marina Frapa, Rogoznica, does not include the income of the anchorage and hotel.
* = no data, marina analytics has not yet processed
/ = italics indicate a decrease in 2020 compared to 2019.

Analysing the business structure of the marina Frapa, it can be concluded that berths and service make up 71.4% of the marina's revenue in 2019 and 76.3% in 2020. Therefore, berths and service in marina Frapa make up most of its business revenue. Observed in 2020, all presented revenue groups were reduced, except for services, which affected only a minimal decrease in profit of only 3.5%. A good circumstance for the marina Frapa, like other highly categorized marinas focused on charter, is that in 2019, charter accounts for around 30% of the total revenue structure, and over 70% of the berth revenue structure. This fact is important in a positive sense for business in the conditions of COVID-19 in 2020, which kept the total income of the marina very close to the income of 2019. The pandemic of COVID-19 resulted in large losses for the Croatian charter, but it showed the need for a better connection with the marina and the term *Marina in & with Business* (business in and with marinas) was imposed as a term that represents the need for the commonality of charters and marinas (Luković, et al., 2022, p. 11). The charter companies are still recovering from the losses experienced by the Croatian charter in 2020, so only in 2023 did the charter recover and return to the results from 2019.

Years	2019.	2020.	2023.	Index 2023/2019
Arrivals	589.009	260.478	585.369	99,4
Overnight stays	3.810.253	1.783.842	3.818.467	100,2

Table 6: Arrivals and overnight stays of charter guests in 2019 & 2020 & 2023.
(Source: Ministry of Transport, Maritime Affairs, and Infrastructure of the Republic of Croatia)

„Number of charter guests who came in the period 01.01.2019. until 31.12.2019. & 01.01.2020. until 31.12.2020. & 01.01.2023. until 31.12.2023. according to nationality and vessel. It can be concluded that the charter has been gradually recovering for the last three years since the end of the COVID-19 pandemic and will reach the level of 2019 in 2023. In all of this, the marinas and the Croatian charter overcame the threat of the COVID-19 pandemic alone, which connected them even more and showed the need for unity. In contrast to other countries, for example Germany, which in the conditions of COVID-19 significantly helped the marinas and cut taxes, while the Croatian marinas did not have this option. With its short-term policy of filling the national budget, in 2019, but also in 2020, the Croatian state maintained the level of filling its revenues from marinas at the level of about 27%, while, for example, German marinas in 2019 and 2020 allocated 0% of the state's contributions. Therefore, the favourable attitude of the state towards marinas, as well as towards the charter, is the key to their development. Regarding the strategies discussed in this research, the management strategy focused on doing business with berths in transit, i.e., the daily berth, is financially more profitable than the annual berth strategy. On the other hand, observed using strategies in the business with moorings, the strategy of using berths on contract, i.e., annual berth, is significantly more resistant to threats and risks that come more and more often and cause major market disturbances.

6. CONCLUSION

Almost all Croatian companies consider investing in strategic risk management as an expense, not an investment. The COVID-19 pandemic proved this attitude of management and business owners to be wrong. Strategic risk management is significantly more complex than usual risk management, but both types are not sufficiently developed in the management of Croatian companies. It is almost the same in the Croatian marina industry. In this regard, the COVID-19 pandemic has shown the existence of two strategic decisions in the business of marinas, which differ significantly. The business strategy aimed at day berthing was developed by ACI and very favourable results are achieved with it in a risk-free environment. However, in the conditions of strong crises that affect the entire company, the entire industry as well as the national economy, as was the case with COVID-19, important differences are shown. The strategy focused on the daily mooring proved to be devastating, up to the level of threat to the entire company. In contrast, most private marinas focus on annual mooring or contract moorings that do not bring in high revenues like daily moorings. The strategy of contract mooring, in the conditions of a strong crisis, which affected the entire Croatian economy, proved to be very resistant to the crisis and damage from the threat in the case of the marina. With this conclusion and knowledge from the research, the hypothesis of this work is confirmed. This research did not show whether it was a planning decision of the marina management for one strategy or another. Therefore, it is not known whether the management considered the possibility of a crisis, or whether it only looked at the business result, ignoring the possibility of a crisis. That part remained unknown, which means that it can be the subject of some other research. In addition, daily mooring business requires a higher degree of operational dynamics in marinas in the season, unlike the strategy of annual moorings. A higher degree of dynamism determines higher business costs in the season. On the other hand, marinas that focus on annual moorings are more tied to the charter, which activates a full crew in the marina at least once a week. Then all segments of the marina were activated in full, from the wharves to the reception and restaurant. In conclusion, the increasingly frequent occurrence of strong crises, such as COVID-19, requires a greater degree of knowledge and understanding, and thus the organization of risk management and strategic risk management in marinas. Whether the organization of strategic risk management, due to its complexity, should be organized as an outsourcing service for marinas or whether it should be brought down to the level of the marina, remains an open question for the management.

Also, viewed from a national perspective, the view that the COVID-19 pandemic caught the Croatian economy by surprise is correct, but also wrong. It is correct, because the Croatian economy was not organized in such a way as to foresee the crisis. Wrong, because other countries and even large foreign corporations recognized the force of the impact of COVID-19 and prepared for the impact, so they responded more readily to the crisis. This means that the organization of strategic risk management is an urgent need in Croatia. This opens the need for stronger involvement of the profession and connection of science with politics.

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EXPLORING THE INTERMEDIARY ROLE OF TOUR GUIDES IN THE DEVELOPMENT OF SUSTAINABLE CULTURAL TOURISM

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ABSTRACT

The development of sustainable cultural tourism requires the protection of cultural heritage and integrated management of tourism activities to the benefit of all stakeholders, including entrepreneurs, tourism workers, local communities, governmental authorities and visitors. Identifying environmental, social and governance issues and proposing viable solutions is key to achieving sustainability goals. This paper aims to explore the intermediary role of tour guides in the tourism sector and their contribution to the development of sustainable cultural tourism. Due to their specific position in the overall tourism system, tour guides can act as a link between the various stakeholders they work with. Their primary task is oriented toward fulfilling the needs of visitors. However, it depends on successful coordination with agencies, hosts and local communities as well as adhering to regulations. Exposed to nearly all aspects of cultural tourism, tour guides have insight into the state of affairs in the field and visitors' feedback. Also, they can play an important role in promoting sustainability through activities that raise awareness of destinations' cultural and natural values, foster spending on locally-made products and sustainable use of resources. To obtain insight into licensed tour guides' attitudes toward sustainability, cultural heritage preservation, governance and communication issues, the survey was conducted on 74 respondents working in Croatia. The results indicate that there is room for improvement regarding communication with authorities and travel agencies, the promotion of non-material cultural heritage and environmental protection. The respondents expressed concerns about preserving the authenticity of destinations, overtourism and regulating the tour-guiding profession.

Keywords: *cultural tourism, heritage, sustainability, tour guide*

1. INTRODUCTION

The development of sustainable cultural tourism requires the protection of cultural heritage and integrated management of tourism activities to the benefit of all stakeholders, including entrepreneurs, tourism workers, local communities, governmental authorities and visitors. There is a rising demand for sustainable tourism products and authentic experiences, comprised of "the thoughts, feelings, and behaviours that take place during tourism activities." (Weston et al., 2019, p. 29) To achieve sustainability goals and provide authentic experiences, it is key to identify environmental, social and governance issues and propose viable solutions in the form of innovative and socially responsible practices. Henche et al. argue that strong "cooperation and networks are a true multiplier of opportunities in the tourism sector because they help to enhance the transfer of knowledge and experiences and innovation." (2020, p. 3) However, incorporating a multidimensional construct as sustainable development into cultural tourism asks for reconciling diverse and sometimes clashing interests of different stakeholders. (Mzembe et al., 2023) Cultural tourism is a very fragmented industry encompassing diverse service providers. Due to this fragmentation, "very few players gain the economies of scale and are listed on the stock exchange," making it "difficult to collate reliable and credible data about the industry players and their practices on ESG framework." (Bodhanwala and Bodhanwala, 2022, p. 1253)

Therefore, to obtain insight into the present state of ESG practices in cultural tourism, it is necessary to collect qualitative data directly from its stakeholders. In this regard, tour guides can provide valuable information. Exposed to nearly all aspects of cultural tourism, tour guides have insight into the state of affairs in the field and visitors' feedback. Their primary task is oriented towards fulfilling the needs of visitors. However, it depends on successful coordination with agencies, hosts and local communities as well as adhering to regulations. Hu and Wall argue that "as a central agent between the visitor and the visited, tour guides work with virtually all parts of the tourism industry and its stakeholders, including the tourists, the destination resources, the local communities, the employers, the governmental authorities and the guides themselves." (2012, p. 80) Also, they can play an important role in promoting sustainability through activities that raise awareness of destinations' cultural and natural values, foster spending on locally-made products and sustainable use of resources. Weiler and Kim note that tour guides "are well placed to communicate, role-model, monitor and thus optimise visitor host and visitor-environment interactions within a sustainability framework." (2011, p. 122) Although the existing theoretical framework suggests that tour guides can substantially contribute to sustainable tourism practices, empirical implications still need to be researched. This paper aims to explore the intermediary role of tour guides in the tourism sector and their contribution to the development of sustainable cultural tourism. Chen et al. point out the importance of empirical studies in tourism knowledge production as they serve as a great addition to the researcher's attempt to evaluate the situation in the field by providing verifiable and more grounded conclusions. (2018, p. 59) Thus, the author decided to survey licenced tour guides about their attitudes and experiences regarding sustainable cultural tourism development. To the best of the author's knowledge, no such survey has been presented in the literature before.

2. METHODS

To fulfil the aim of this paper, the author opted for a twofold approach: conducting a literature review and carrying out a survey among tour guides. Digital databases Web of Science Core Collection and Scopus were used to browse journal articles and conference proceedings. The search was carried out in January 2024. The initial search terms were "sustainable cultural tourism" and "tour guide" contained in the title, abstract, and/or keywords. The search was not limited to any specific period or research area. Out of 65 results, 10 papers were designated as relevant for this paper. Then, another search was conducted using the terms "environment sustainability governance" and "cultural tourism," yielding 133 results, out of which 16 were found highly relevant to this study. To convey relevant information on the regulation of the tour guiding profession and the definition of sustainable cultural tourism, three official EU publications were used. The survey questions were designed after identifying focal points in the development of sustainable cultural tourism and research gaps regarding the involvement of tour guides in the process. The online survey was conducted from 8 to 16 January 2024 on 74 licensed tour guides working in Croatia who were recruited using direct contact and social media.

3. SUSTAINABLE CULTURAL TOURISM

3.1. Definition and scope

In the publication by the Directorate-General for Education, Youth, Sport and Culture of the European Commission (2019, p. 8), sustainable cultural tourism is defined as "the integrated management of cultural heritage and tourism activities in conjunction with the local community, creating social, environmental and economic benefits for all stakeholders in order to achieve tangible and intangible cultural heritage conservation and sustainable tourism development." Regarding tangible cultural heritage, the aim is to protect artistic, archaeological

and worship sites as well as entire areas of historic and cultural value. As for intangible heritage, Marchi et al. note that sustainable tourism implies preserving and enhancing "intangible assets of past and living cultures representing their lifestyles, value systems, spiritual features, beliefs, and traditions." (2023, p. 2) However, in many places, the development of tourism resulted in the degradation and loss of authentic cultural identity. The overproduction of accommodation facilities with no respect for traditional building styles, and the lack of traditional foods, crafts and festivities are some of the consequences of accommodating what was thought were tourists' requirements. By neglecting cultural resources in tourism, communities have also suffered "a decline in local knowledge of ecology, skills and technologies related to habitat management." (Roblek et al., 2021, p. 11) Development should be planned in line with the destination's natural and human resources. Both with its tangible and intangible aspects, cultural heritage can greatly contribute to sustainability efforts if it is adequately incorporated into the tourism offer. "Instead of eroding identity," Alvarez-Sousa remarks, "tourism should enhance it and, in turn, attract visitors interested in discovering the identity of the place." (2018, p. 14) As tourism and heritage activities affect society as a whole, their management must recognize the role and needs of diverse stakeholders.

3.2. Stakeholder groups

In the cultural tourism sector, stakeholder groups encompass "all levels from local self-government units through ministries and the public sector in general to entrepreneurship and scientific institutions." (Rudan et al., 2021, p. 124) Using shared rules, norms and structures, autonomous stakeholder groups collaborate to achieve a reasonable degree of consensus on desired directions for sustainable cultural tourism development. (Özgit and Zhandildina, 2021, p. 502) Within the process, it is essential to identify the benefits for each group as well as how exactly it can contribute to the common goal.

3.2.1. Local community

As cultural heritage is inextricably linked to the space occupied by a local community and to the people themselves through their lifestyle and traditions, their role in cultural tourism is of central importance. Local communities are expected to share their resources and adapt to the externalities of the tourism industry. Many locals are directly involved in tourism businesses, whether as entrepreneurs or employees. Regarding tangible heritage, they can play an important role as owners in protected areas. As inheritors of intangible heritage, they play a crucial role in its preservation and future development. Therefore, as Su et al. argue, developers must put inheritors in the same position as tourists when developing intangible heritage tourism. (2020, p. 22) Decision-making processes regarding future development necessitate their participation. However, even though in theory these processes emphasize the importance of the local community, in practice they are rarely controlled by locals. (Salazar, 2017)

3.2.2. Governance authorities

Given that cultural heritage is subject to national and international legislation, governance authorities are intrinsic to cultural tourism development. Authorities of various hierarchical levels have been engaged in heritage protection and management. Various studies have pointed out effective governance processes such as government policy and partnerships as the fundamental determinants for achieving sustainable development of cultural heritage tourism. (Mzembe et al., 2023, p. 2199) Authorities' role involves destination branding, providing a legislative framework for businesses, ensuring that actual tourism practices are fair and legal, reducing negative environmental effects, supporting local businesses, implementing policies on urban and rural development, maintaining and enhancing infrastructure, etc.

Sustainable development can be achieved only if the goals of the tourism companies and the administration of the region coincide. (Nakipova et al., 2023) Also, authorities have a crucial role in the implementation of ESG factors in overall tourism operations. Ionescu et al. argue that "public policies directly influence how companies are concerned about implementing measures that favour ESG factors and, implicitly, influence their economic performance and market value." (2019, p. 842) In destination branding, sustainability initiatives can be used for the creation of a cultural tourism brand which leads to the association of the region with potential guests. (Nakipova et al., 2023, p. 201)

3.2.3. Businesses and corporations

Up until now, the government has played a central role in protecting heritage. However, as Starr argues, society can no longer rely on governments alone to protect heritage sites, and "the conservation of cultural heritage sites must be promoted as a corporate responsibility and the private sector must respond to the call." (2013, p. 171) When it comes to corporate practices in cultural tourism, the focus has mostly been on their corporate social responsibility (CSR) policies. Wells et al. suggest that CSR policies should be directed towards the preservation of cultural heritage, reinforcing ties with communities, engaging in social and environmental issues as well as the sustainable use of resources. (2015, p. 5) As for the motives for the protection of local cultural and natural resources, Chi et al. recognize the importance of a positive corporate reputation and the managers' need for self-respect and self-fulfilment. They found a positive association between place attachment and environmental protection behaviour: managers who feel a stronger attachment to a certain place and its culture "are likely to place more emphasis on heritage preservation rather than on potential economic benefits brought by heritage resources." (Chi et al., 2019, pp. 4-5) The important aspect of CSR policies is education, both when it comes to employees and consumers. Sustainable development is, after all, a relatively new concept, and its practical implications and benefits need to be communicated clearly and effectively. Horng et al. state that "practitioners should seek to create a tourism product that reflects awareness of sustainability, such as a product that benefits society and the environment and that enables tourists to feel satisfied and to learn at the same time." (2018, p. 1096) The incorporation of CSR policies into core missions, operations and activities of corporate tourism actors can improve their effect on the environment and relations with the local community, contributing to the overall sustainability of the destination.

3.2.4. Tourists

The reviewed literature suggests that a growing number of tourists are increasingly concerned about sustainability issues. (Folgado-Fernández et al., 2023) The research conducted by Rodella et al. found that tourists express a significant willingness to pay more for better-preserved scenery "probably because they give high importance to the landscape value and its preservation." (2020, p. 23) Analysing tourist feedback and keeping up with the changing demands of the tourism market is of crucial importance for attracting visitors and facilitating their return. Furthermore, Pu et al. note that learning about sustainability is a two-way process, rooted in local culture but also infused with insights gained from tourists. (2023, p. 826) Due to constant exposure to their surroundings, locals might take some aspects of their culture for granted. Visitors' impressions can thus contribute to its recognition and evaluation.

4. TOUR GUIDES – ROLES AND IMPACT

The profession of a tour guide is regulated in 13 member states of the European Union. The European Committee for Standardization defines a tour guide as "a person who guides visitors in the language of their choice and interprets the cultural and natural heritage of an area, which person normally possesses an area-specific qualification usually issued and/or recognized by

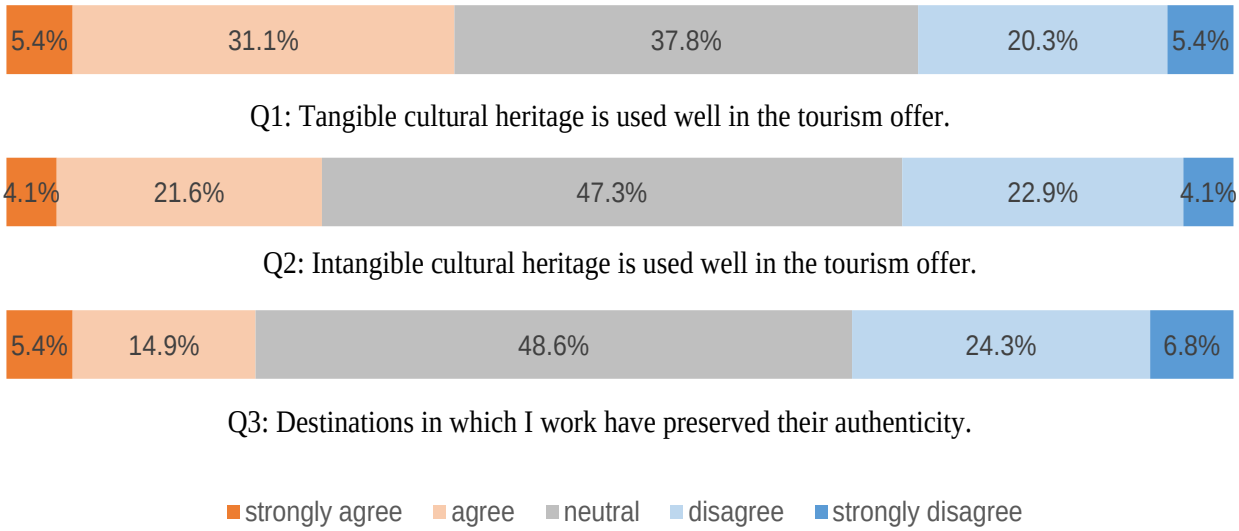
the appropriate authority." (Directorate-General for Budget, 2016, p. 6) Together with the communicational and organizational aspects of tourism, the knowledge of cultural heritage is central to the tour guiding profession. A tour guide is a cultural mediator, having direct contact with both the tourist and the visited destination. As such, s/he bridges the gap between the demand and supply side. (Çetinkaya and Zafer, 2015, p. 1404) The interpretation of heritage is just one of many aspects of the profession. Beyond one-way presentation, tour guides are expected to foster experience for visitors, marked by interaction in a physical environment and the creation of impactful memories. However, managing experiences depends on many external factors, including the state of cultural and natural sites, creative industries, traffic, gastronomic offer, agencies' demands and locals' attitudes towards tourism. Therefore, tour guides should be well acquainted with all these aspects of a destination, and it requires interaction with numerous stakeholders. Moreover, to some stakeholders tour guides are directly accountable. Key among them are the guide's employer, the host community and the governance authority. (Hu and Wall, 2012, p. 81) Tour guides, whose work is based on direct personal contact with tourists, could provide other stakeholders with useful information on their impressions, behaviours and feedback. Also, communication with tourists can result in exchanging useful information and ideas on sustainable development. Weiler and Black suggest that "With regard to tourists' expectations of environmental and social responsibility, guides may be engaged as caretakers and monitors of both tourists and their behaviour, and as information trackers in relation to tourism impacts." (2021, p. 371) The role of a tour guide can go beyond monitoring behaviours and tracking impacts. Their interpretation skills can be used as an educational tool for promoting sustainability. By addressing cultural and environmental elements that are unique and need to be protected, a tour guide can get a visitor to pay attention and engage with these issues. (Weiler and Kim, 2011, p. 115) Effective interpretation may create greater awareness of local culture and environment through presenting quality information, informing visitors on appropriate behaviours and alerting them to the consequences of behaviours that harm the social and biological environment. (Poudel and Nyuapane, 2013, p. 660) The impact of this approach reaches far beyond a single travel experience. It calls for visitors' intellectual and emotional engagement, aiming to enhance empathetic behaviours in visited destinations. Walker and Moscardo state that the real "challenge for interpretation in tourism is to activate or change tourist values to support sustainability and associated behaviours." (2014, p. 1192) By all means, it is a complex and lengthy process, but its potential positive effects can contribute to the well-being of many stakeholder groups. Besides addressing sustainability and fostering behaviours that help protect natural and cultural heritage, tour guides can improve the well-being of the local community through the facilitation of spending. (Hu and Wall, 2012, p. 81) Local products, from foods to arts and crafts, should be distinguished. As they often possess heritage value and reflect local traditions, they can easily be added to the interpretation. The positive effect occurs not only during the tourist visits but also after their return home if they decide to buy those products from there. (Folgado-Fernández et al., 2023) The impact is even greater if the visitors turn into ambassadors of the visited destination, promoting it and its authentic products. In this regard, the role of a tour guide is also to inspire. Rather than merely covering isolated facts on history and geography, s/he should address larger issues. Hu and Wall point out that "visitors will forget isolated facts from a guided tour, but they will remember and even internalize the big idea, the theme." (2012, p. 84) The tour guide who emanates pride in cultural and natural heritage, possesses extensive knowledge and interpretation skills, and chooses to emphasize the need for preservation and sustainability, will likely leave a strong and lasting effect on visitors. Salazar notes that due to the communicative power of tourism, representations of cultural heritage also have potentially significant influences on the communities who are being presented.

Thus it is necessary to foster a two-way exchange of information between tour guides and locals, who need to be assured that they are adequately presented. (Salazar, 2017, p. 18)

5. SURVEY RESULTS AND DISCUSSION

To obtain insight into licensed tour guides' attitudes toward sustainability, cultural heritage preservation, tourism governance and communication issues, an online survey was conducted on 74 respondents. As tour guiding is a regulated profession in Croatia, all the respondents are licenced tour guides who have passed a state exam. The exam covers the basics of tourism legislation and operations, cultural-historic monuments, national history, economics, politics and administration, communication culture and tourism geography. An additional exam is required for tourist localities in each of the 21 counties, and local tourist guides can provide guiding services only in the county or counties they have passed the exam for. (Directorate-General for Budget, 2016, p. 11) Therefore, it is reasonable to assume that respondents are well-acquainted with tourism concepts and trends as well as with cultural heritage. The survey consists of twelve questions. Ten of them were designed as 5-point Likert scale items, one as a 3-point Likert scale item, and one question was designed as open-ended, asking respondents to provide their input on the topic. The collected data was statistically analysed using EViews software and MS Excel. The descriptive analyses include median, mean and standard deviation. The questions were divided into four groups. The first group encompasses three questions that explore attitudes towards cultural heritage and destination authenticity. The 1-5 point Likert scale items provided the respondents with the option to grade their answers from 1 (strongly agree) to 5 (strongly disagree). The median value equals 3 for *Q1: Tangible cultural heritage is used well in the tourism offer, Q2: Intangible cultural heritage is used well in the tourism offer* and *Q3: Destinations in which I work have preserved their authenticity.* The mean for Q1 equals 2.89 and for Q2 3.01, suggesting that respondents believe that tangible cultural heritage is slightly better used for tourism purposes than intangible heritage. The mean of 3.12 for *Q3: Destinations in which I work have preserved their authenticity* and 48.6% of respondents opting for a neutral stance indicate a low perception of destinations' authenticity. Due to the strong emphasis on the destination's authenticity in the context of sustainable cultural tourism, this finding is particularly noteworthy.

Chart 1: Attitudes towards cultural heritage and destination authenticity



(Source: author's work)

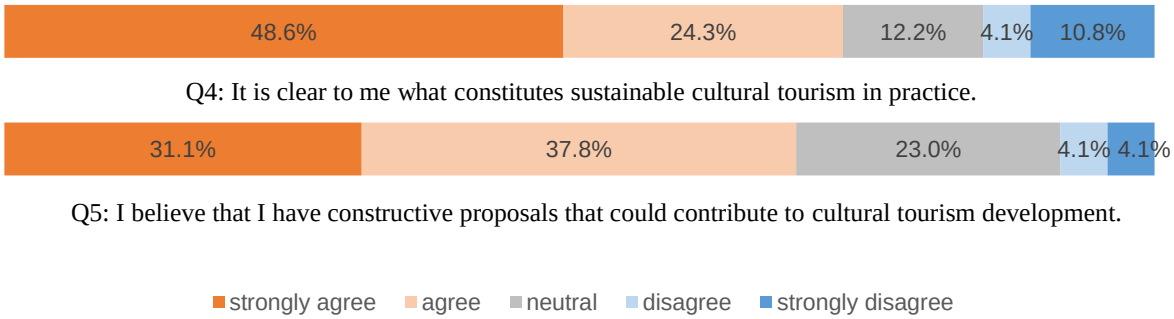
Table 1: Descriptive statistics

Question	Mean	Median	Standard deviation
Q1: Tangible cultural heritage is used well in the tourism offer.	2.89	3	0.97
Q2: Intangible cultural heritage is used well in the tourism offer	3.01	3	0.88
Q3: Destinations in which I work have preserved their authenticity.	3.12	3	0.93

(Source: author's work)

The second group of questions focuses on attitudes and contributions to the development of sustainable cultural tourism. The respondents graded their answers from 1 (strongly agree) to 5 (strongly disagree). The median for both *Q4: It is clear to me what constitutes sustainable cultural tourism in practice* and *Q5: I believe that I have constructive proposals that could contribute to cultural tourism development* equals 2, suggesting that tour guides in general have a good understanding of sustainable cultural tourism practices and ideas for its enhancement. However, as high as 10.8% of respondents expressed complete unfamiliarity with the practical implications of sustainable cultural tourism. Furthermore, in overall 68.9% of respondents believe that they could contribute to sustainable development with their constructive proposals and ideas.

Chart 2: Attitudes towards sustainable cultural tourism development



(Source: author's work)

Table 2: Descriptive statistics

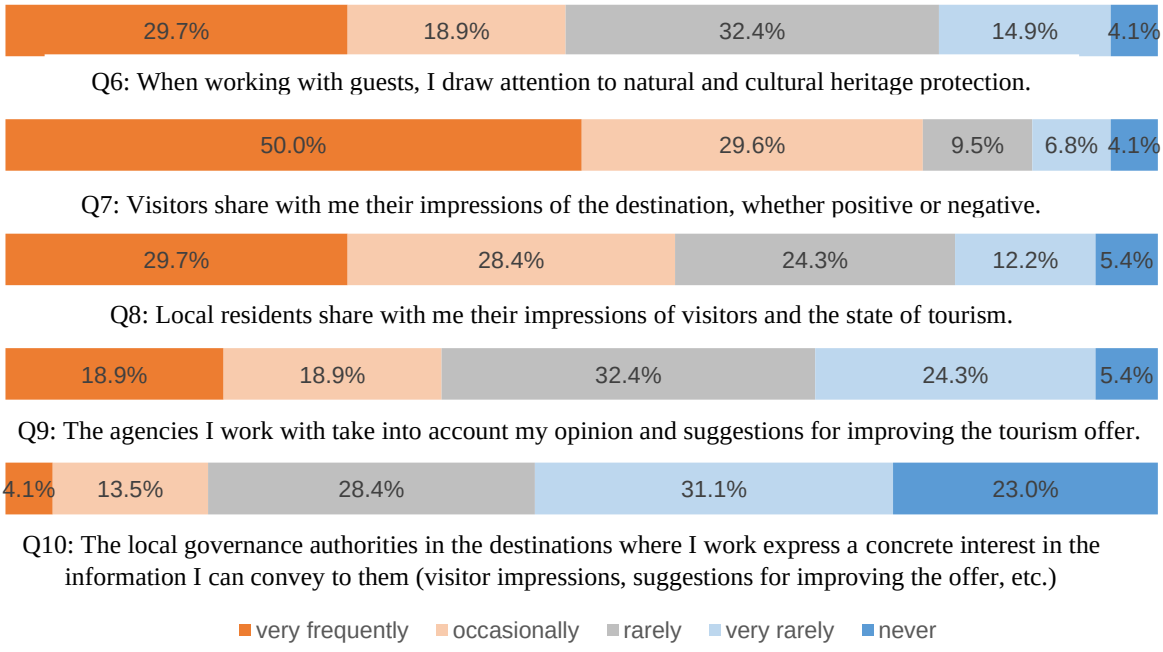
Question	Mean	Median	Standard deviation
Q4: It is clear to me what constitutes sustainable cultural tourism in practice.	2.04	2	1.23
Q5: I believe that I have constructive proposals that could contribute to cultural tourism development.	2.32	2	0.72

(Source: author's work)

The third group of questions aimed to provide insight into the communication between tour guides and other tourism stakeholders. On a Likert scale item, response options were the following: 1 (very frequently), 2 (occasionally), 3 (rarely), 4 (very rarely), 5 (never). *Q6: When working with guests, I draw attention to natural and cultural heritage protection* aimed at the content of tour guides' interpretation.

The neutral median of 3 and the mean of 2.44 suggest that there is room for improvement in addressing natural and cultural heritage protection while communicating with visitors. As many as 50% of respondents strongly agree that visitors provide them with feedback on the destination, regardless of whether it is a positive or negative one. With an additional 29.6% that agree, it is evident that tour guides possess a lot of potentially valuable information regarding visitor's impressions of the destination. The mean of 2.35 for *Q8: Local residents share with me their impressions of visitors and the state of tourism* suggests that tour guides communicate extensively with locals as well, especially when it comes to sharing impressions on tourism-related issues. Questions 9 and 10 focus on their communication with tour agencies and governance authorities. The mean for *Q9: The agencies I work with take into account my opinion and suggestions for improving the tourism offer* equals 2.78. Only 29.7% of tour guides feel like their opinion is taken into account by tour agencies, who are in most cases their major providers of work. The mean for *Q10: The local governance authorities in the destinations where I work express a concrete interest in the information I can convey to them (visitor impressions, suggestions for improving the offer, etc.)* equals 3.55. Only 17.6% of respondents hold that authorities express interest in the information they can provide them with.

Chart 3: Communication with stakeholders



(Source: author's work)

Table following on the next page

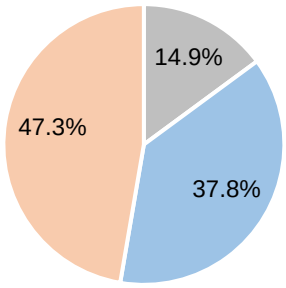
Table 3: Descriptive statistics

Question	Mean	Median	Standard deviation
Q6: When working with guests, I draw attention to natural and cultural heritage protection.	2.44	3	1.83
Q7: Visitors share with me their impressions of the destination, whether positive or negative.	2.32	1.5	0.72
Q8: Local residents share with me their impressions of visitors and the state of tourism.	2.35	2	1.18
Q9: The agencies I work with take into account my opinion and suggestions for improving the tourism offer.	2.78	3	1.17
Q10: The local governance authorities in the destinations where I work express a concrete interest in the information I can convey to them.	3.55	4	1.11

(Source: author's work)

Q11: *I believe that the profession of tour guide is efficiently regulated by law* provides insight into the respondents' opinion of the current legislation of tour guiding. Almost half of the respondents believe that the profession is not efficiently regulated. This complex issue has been under revision by tour guides and authorities for years, but no final conclusions or legislation changes have been made yet.

Chart 4: Attitude towards tour guiding regulation



Q11: I believe that the tour guiding profession is efficiently regulated by law.

agree neutral disagree

(Source: author's work)

Q12: In your opinion, what are the biggest obstacles to the development of sustainable cultural tourism was designed as open-ended, asking respondents for their input. Provided answers include the following: *too many guests for the location*; *too little is done regarding the quality education of all stakeholders*; *the infestation of mass tourism and transforming destinations into transit stops*; *the poor knowledge of tour guide colleagues and the invention of unverified facts and anecdotes*; *local people do not know what heritage is and do not see their traditions as worth mentioning and showing to someone.* Overtourism, the lack of quality education, misinterpretation, unfair practices and the unrecognition of heritage are regarded as the main issues.

6. CONCLUDING REMARKS AND RECOMMENDATIONS FOR FUTURE RESEARCH

The cooperation of all stakeholder groups is crucial for effective cultural tourism management and its sustainable development. Although it might lead to a possible conflict of interest between various stakeholders, the best interest of the society as a whole requires finding a middle ground. A timely and efficient information-sharing process can greatly contribute to identifying environmental, social and governance issues and proposing viable solutions. Moreno-Mendoza remarks that all stakeholders have the responsibility to follow up with developmental initiatives and concludes that "governance of cultural heritage is a strategic tool for managing responsible tourism products." (2019, p. 12) This paper aimed to explore the potential contribution that tour guides can have to this process due to their intermediary role in the tourism sector. Theoretical implications suggest that tour guides can use their interpretation skills to convey the importance of the protection of natural and cultural heritage, responsible behaviour in destinations and supporting local producers. Also, they can provide other stakeholders with information on tourists' impressions, remarks and suggestions for improvement. The conducted survey collected responses from 74 licenced tour guides working in Croatia. The results indicate that practical implications lag behind the theory. There is room for improvement regarding communication with authorities and travel agencies, the promotion of cultural heritage and environmental protection. Also, the respondents expressed concerns about preserving the authenticity of destinations, overtourism and regulating the tour guiding profession. The research limitations of this study need to be addressed. They are primarily related to a relatively small sample of surveyed tour guides. Expanding research to include more respondents from more countries should increase its reliability. Also, future research should be more inferential, aimed at seeking causal relations between attitudes, behaviours and practices in cultural tourism.

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EFFECTIVE LEADERSHIP TRAITS AND STRATEGIES

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ABSTRACT

The paper explores the importance of leadership, including the range of decisions and responsibilities often faced in such a role, and the kind of traits that makes a leader effective. It considers the fundamental questions of who should lead, and why, as well as strategies for success that are recommended by governing bodies in such sectors as the military establishment, government, academic environment, as well as private enterprise. The research identifies key elements of effective leadership as well as the actions in which strong leaders engage. Through this exploration of the research, we can formulate new ways of promoting our governing bodies and identify tried and true characteristics and skills that help to form effective leaders. While there are natural born leaders, many institutions promote based on seniority, or on an individual's success in their current (non leadership) role. It is suggested that decisions determining who is chosen to be in governance should be made as part of an intentional, thoughtful process rather than as a promotion due to longevity in a position. For example, while university presidents, provosts, and academic deans are selected through a national or international search, department chairs are often filled internally, by existing faculty members. The role of chair is typically not a coveted one, in which faculty are excited to fill and motivated to earn, it is often a dreaded task to be avoided. The faculty member chosen for this important role, then, is often not necessarily the most qualified or appropriate individual. While the chair position is a good opportunity to develop leadership experience, it requires support and training, which is often lacking at this level. Universities have occasion to nurture future leaders through a more structured vetting process and thoughtful succession planning.

Keywords: *Governance, Leadership, Leadership traits*

1. INTRODUCTION

"A leader is one who knows the way, goes the way, and shows the way." This quote by American author and leadership coach John C. Maxwell exemplifies the message of this paper; that because someone has done a particular job before (knows the way and goes the way) does not necessarily mean they possess the appropriate skillset and temperament to be an effective leader, or the person who "shows the way". It takes more than experience to be effective in governance; it is also essential to have and communicate a vision, lead and inspire others, and make difficult decisions. There are certain traits, abilities, and strategies that have been demonstrated in highly efficacious leaders, including humility, emotional intelligence, and decision making. These and other qualities and skills will be explored in this paper, as well as ideas for hiring and coaching effective leaders.

2. THE FUNDAMENTAL QUESTIONS OF WHO SHOULD LEAD, AND WHY

Researchers have proposed that the fundamental question of leadership is not 'Who shall rule', but rather 'Who *should* rule' (Hogan & Kaiser, 2005). The significance of this perspective shifts the way we look at leadership. Often in the workplace, a supervisor or next level manager is selected based on seniority, rather than based on the person's governing abilities. Holding a non-leadership position for a certain number of years does not directly translate into having the skills necessary to lead, make decisions, manage conflict, or to help set vision and priorities. Additionally, because someone is successful in their job (a top-earning salesperson, for example, or a highly effective teacher), does not necessarily qualify that person to lead others.

We should instead examine the leadership potential in the pool of candidates and select the person best suited to lead others and expand training and mentoring initiatives. Academic leaders may work their way through the leadership ladder, moving from department chair to assistant/associate dean, or may be hired after having served as an interim (Enomoto & Matsuoka, 2007). Alternatively, a leader may be hired after an external search, with the assumption that they have the needed skills and experience (and personality) to get the job done. Of those working their way through the ranks, some may receive mentoring or formal training, while others, especially those serving in an interim role, often need to learn the job as they go (Enomoto & Matsuoka, 2007). Many leaders are successful because they are personally motivated, driven, and willing to learn what it is they do not know (Goldsby et al., 2021), and do not rely on a formal training regimen. Perhaps organizations such as academic institutions could screen for this type of employee as an alternative to the test of longevity for management consideration.

2.1. Case Study I

Mike served as a faculty member for 11 years, publishing in professional journal articles, and serving on a variety of committees connected with his university. The chair of his department, Lisa, announced that this year would be her final year as chair, and she would be returning to the faculty role after her term ended in the spring. Later that day, Mike was summoned to the dean's office, where he was very strongly encouraged to consider serving as the next chair, as he was the most senior faculty member in the department.

Questions to consider:

- Did the Dean examine the potential leadership qualities of other faculty in the department, even if they had fewer years in the department?
- Is Mike the most qualified candidate to lead the department?
- How often does this occur on university campuses and other places of business?

While we do not have enough information from this scenario to determine whether Mike is the best choice for the role of chair, this example does underscore the point of this paper: that too often employees are put into leadership positions based on how long they have worked in a particular position, or how well they performed in a (non-supervisory) lower-level position. Too little thought is given to the leadership qualities a person may exhibit. Universities would benefit from creating a professional path for positions with relatively high leadership turnover, such as department chair. Consider the case study above, as an example. If Mike came from an institutional culture that encouraged leadership development and talked openly about succession planning, then perhaps Lisa would have been training Mike over time so the idea of becoming department chair (assuming Mike was the most qualified individual) would not be something his dean had to request at the last minute. Researchers have identified the importance of knowledge and skill development, increased responsibility, and providing opportunities for career pathways in developing leaders (Niati et al., 2021). Training is an important component of employee growth (Niati et al., 2021), yet is an area often overlooked when faculty move to more administrative positions, including that of department chair.
Consider the following case study.

2.2. Case Study II

Jeannie has served as chair of the department for several terms and has decided that this year would be her last before returning to her faculty role. No one has approached her yet to express interest. John is by far the longest serving faculty member in the department, but Jeannie has been fielding complaints for students for several years about the long response time between

their emailed questions and his responses, something she herself has experienced many times and has discussed with John on occasion. Jeannie knows that one of the primary functions of a chair is clear communication up and down the academic channel, and John's lack of timely response is a red flag. Another faculty member, Greg, is driven, an excellent communicator, and very capable when dealing with people. He is, however, a first-year faculty member. Jeannie makes a mental note to suggest to the next chair to keep Greg in mind for succession planning in the future. Jeannie then considers Frances, who has recently earned tenure and has the respect of her colleagues. Jeannie believes that with mentoring and training, Frances would make a confident, effective leader. Jeannie decides to discuss the matter with her dean before approaching Frances.

Questions to consider:

- Do you agree with Jeannie's decision not to recommend Greg for the position in his first year?
- Would you feel comfortable recommending a more junior member of faculty to serve as chair if they were more prepared to lead?
- How is Jeannie's handling of this situation affected by the procedure of faculty voting on their next chair?

3. THE IMPORTANCE OF LEADERSHIP AND WHAT MAKES A LEADER EFFECTIVE; STRATEGIES FOR SUCCESS

Scholars have studied the qualities of leaders in the military, government, academic environment, and in private enterprise, noting their shortfalls, successes, and challenges over this wide range of venues. We can learn from them and apply the teachings, regardless of the discipline from which they originate. Rear Admiral Michael Giorgione, the Commanding Officer of Camp David under two presidents, gathered extensive leadership experience while ensuring the security and comfort of the President of the United States, along with the President's family and guests (Giorgione, 2017). He shared the following tips he learned while governing both military and civilian personnel during the Camp David assignment, many of them embedded in the humble leadership philosophy.

- *Make sure your hat size is the same as when you went in.*
- *Take the hit, pass on the praise.*
- *Learn from your mistakes and adjust.*
- *Walk the talk; never ask your troops to do anything you aren't willing to do.*
- *Build relationships before you need them* (Giorgione, 2017).

Rear Admiral Giorgione touches on the concept of humility in his quotes, as well as creating a culture of mutual respect and trust. I would add authenticity to this list, as people can often sense when someone is putting up a pretense. It is the seasoned leader who feels comfortable enough to use humor (appropriately), show a degree of vulnerability, and lead through example. Leaders are frequently called upon to make decisions about policy, budget priorities, strategy, the hiring and firing of personnel, or whether to expand a program. For leaders to make decisions effectively, they should be aware of a few common pitfalls. Campbell et al. (2009) identifies a phenomenon called 'pattern recognition', whereby a leader thinks they know a situation because it has similar cues to situations they have observed or in which they have taken part in the past. Making assumptions based on prior experience can lead to moving into decision making too quickly, before all of the facts are in. New leaders may be especially prone to this process, as they may feel pressure to act decisively and quickly, which may cause them to forfeit the time needed to explore an issue in depth before responding.

It is recommended that leaders analyze data (exploring both the pros and the cons), engage in problem solving, and using logic to formulate a decision (McKenna, 2023). People in leadership positions should also have a developed emotional intelligence, which can be described in part as self-awareness, self-control, and effective self-expression (McKenna, 2023). Emotional intelligence also relates to one's ability to read and respond to the emotions of others (Gorgens-Ekermans & Roux, 2021). By showing consideration and understanding of the needs and feelings of employees, leaders enjoy a wider range of emotions they can display, including 'negative' emotions, which positively affects worker performance as well (Gorgens-Ekermans & Roux, 2021). Building a culture of trust, respect, and authenticity is important, and may be something with which people struggling with insecurity and/or narcissism may have difficulty. One example of a management style that has been found to be effective is transformational leadership, in which the 'boss' shares the vision, and motivates and empowers subordinates to fulfill the collective goal; this style has shown elevated levels of job satisfaction and creativity in employees (Gorgens-Ekermans & Roux, 2021). Existentialist Friedrich Nietzsche (1844-1900) has been quoted as saying, "He who has a *why* to live for can bear almost any *how*" (emphasis added). In other words, people crave an understanding of why they are being asked to fulfil certain tasks. Effective professors give the 'why' of a particular assignment so that students know it is purpose-driven, and not busy work. Effective leaders share the purpose of a goal, strategy, or implementation of a new system, so that employees have an understanding of the related work they are being asked to perform. Entrepreneurial leaders are often creative thinkers, and do well in times of unpredictability, working around systemic roadblocks (Butler, 2017). These leaders tend to promote creativity in their employees by helping them to feel empowered and confident in their abilities (Mehmood et al., 2021). Having leaders who inspire and support their direct reports can help to create a culture of growth and productivity. A theme that surfaces frequently in the literature is the importance of humility in a leader. Humility is defined by Chandler et al. (2023) as the ability to self-reflect, to be open to feedback and fresh ideas, and to appreciate the qualities and contributions of others. It is not only a desirable trait, but has also been found to improve team functioning, as humble leadership helps to garner trust (Soderberg & Romney, 2022), as well as enhance team performance by recalling mistakes and the lesson(s) learned from them (Hu et al., 2022). Not all leaders feel comfortable sharing with others the times they have made mistakes or giving credit for a successful project to the people responsible, but these meaningful gestures go a long way in establishing credibility and integrity. It is imperative that leaders are effective communicators, sharing information up and down the chain. This includes a process called "cascading", whereby leaders bring back to their units what they learned when they attend high level trainings, engaging their team with the new information (Zuber-Skerritt & Louw, 2014). To further complicate matters, leaders are now interacting with five generations of employees, each with different needs, communication styles and preferences, and expectations (Connley, 2024). While the importance of communication is often mentioned as a priority, it is rare to see training, assessment, or even accountability of this critical skill set in leadership positions.

4. HOW TO HIRE AN EFFECTIVE LEADER

A colleague once shared with me that whenever they have an employee leave the organization, whether it be due to retirement, an opportunity elsewhere, or an involuntary separation, they take that opportunity to really examine the role. Is the position still needed? Is this previous job description and requirements still relevant? Or does the position need to be modified to better reflect the current needs of the institution? It may be helpful if higher education and other complex organizations engaged in a similar reflective process when conducting a search for new leadership.

Would we be best served by promoting from within, and providing job development and coaching if needed? If not, would an internal or external search best suit our needs? Does the upcoming hire need to match the job as it was originally conceived, or is this an opportunity to refine or change the job description? If the decision is to promote from within, is the individual selected because of their particular knowledge, skill set and personality traits, or because of their longevity or content expertise? Reflecting on these questions may help provide an opportunity to examine what is truly needed. Some organizations are examining the ways in which they promote and hire. The military, for example, has made a shift from a brief, subjective overview of a senior officer's file (including a photograph), to a system that includes various levels of testing, feedback, and interviews (Spain, 2020). This more robust method helps to remove implicit bias and lessens the degree to which toxic leadership is sustained. Other ways to help remove bias include organizations that keep the camera off during the first round, remote session interview. Regardless of what techniques an organization uses, it is important to objectively assess the qualifications and skillset to determine hiring needs as well as for career development, coaching, and mentoring opportunities.

4.1. Mentoring

Historically, people in leadership positions provided more of a supervisory role; that has shifted in recent years to more of a coaching role (Susanto & Sawitri, 2023). Leaders can benefit both from being a coach and mentor to someone, and in receiving mentorship themselves. Coaching can enhance job performance and aid in career progression (Gupta, 2021) and can provide direction, feedback for further development, and ideas for new growth opportunities. In the academic world, mentoring can be especially helpful for early and mid-career faculty, especially women (Gupta, 2021), and women of color (Tran, 2014). Additionally, more intentionality should be put into formal mentorship to help employees develop the skills necessary for the difficult tasks associated with a leadership position. Effective mentoring includes both psychological support and career development (Ayoobzadeh & Boies, 2020). Psychological support entails helping the developing leader build confidence and offering affirmation, while career development involves helping the mentee build professional networks, explore competencies, provide coaching, and assign challenging tasks to help the individual grow (Ayoobzadeh & Boies, 2020). These strategies are not often employed at university settings, where new leaders are often thrown into the role (sometimes unwillingly), with little or no guidance, training, or support. There is significant room for improvement in leadership development.

5. CONCLUSION

Some people are natural born leaders; others grow into the role with the help of coaching and mentoring. As the next bench of leadership is being determined, more should be taken into consideration than solely the employee's longevity with the company or industry, or with the success within a particular role. While these qualities are commendable, and may add weight to a particular candidate's dossier, a more thoughtful approach should be taken. What qualities does the candidate possess that may prove useful in a leadership position? Has the employee demonstrated initiative? Exceptional problem-solving abilities? Advanced interpersonal skills? These are the seeds that can be nurtured and developed to produce an excellent leader. Additionally, creating an environment that offers training and coaching, and encourages succession planning may help to eliminate leadership decisions based on inappropriate criteria and develop the best personnel for the role.

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THE IMPACT OF ARTIFICIAL INTELLIGENCE AND OF THE #DEINFLUENCING TREND ON INFLUENCER MARKETING

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ABSTRACT

New generations use social media to inform themselves. Numerous influencers have recognized this trend and use their influence to promote their goods and services. Research has shown that customers believe influencers' recommendations because they appreciate them and want to imitate them. Various research also shows the development and growth of the social media marketplace and of influencer marketing. The return on investment of influencer marketing pushes companies to find the "right person" who could represent their brand values and the target group. Artificial intelligence (AI) is changing commerce and enabling automated tracking of customer satisfaction, trend predictions and it can create content for numerous promotions on social media. Artificial intelligence helps in finding the "right person" (influencer) for the targeted customers of a brand and creates relevant content on social media. AI can also create virtual influencers who already have millions of followers on social media. The most recent trend in influencer marketing is #deinfluencing, which started on the social media platform TikTok in 2023. #Deinfluencing denotes giving reviews of products which customers should avoid. Numerous researchers also shown positive trends and growth of influencer marketing in the world. The aim of this research is to explain influencer marketing, the impact of artificial intelligence and of the #deinfluencing trend on influencer marketing. Based on the available literature and previous research, this paper will elaborate on influencer marketing, as well as the impact of artificial intelligence and the #deinfluencing trend on influencer marketing.

Keywords: *social media, influencer marketing, artificial intelligence, #deinfluencing*

1. INTRODUCTION

Influencer marketing has a constant growth of profitability, and influences `the behaviours of consumers worldwide. This article should help brands and influencers in understanding the impact of artificial intelligence and the #deinfluencing trend on influencer marketing. Artificial intelligence transforms people`s lifestyles and accelerates business processes. Its impact can be noticed in the increasing use of artificial intelligence tools by brands. Artificial intelligence is mostly used in order to choose the most appropriate person for the influencer campaign and to track the campaign`s success. The new trend of #deinfluencing was created on the social media platform TikTok in 2023 due to the false promotions from influencers. The #deinfluencing trend encourages brands and influencers to utilize more honest advertising. Micro influencers could profit from the use of artificial intelligence tools which can find "the right person" (influencer) by searching for various,detailed characteristics which they fulfill. Most marketing experts have used influencer marketing in 2022 and most planned to use artificial intelligence in 2023. The role of the #deinfluencing trend is significant; views on TikTok were increased five times in the period from February to April 2023. The significant role of influencer marketing, the relevancy of artificial intelligence and of the new #deinfluencing trend were the motivational factors for this article.

Within the context of how and in which ways artificial intelligence and the #deinfluencing trend affect influencer marketing this article addresses the development of influencer marketing the impact of artificial intelligence and the #deinfluencing trend on influencer marketing in numerous relevant examples.

2. INFLUENCER MARKETING

People and brands have always been attracted to people in the spotlight who have an influence on people's mindsets. An influencer is a person who has an influence on other people`s behaviour. From the marketing aspect, it denotes a person who promotes a brand`s products to their followers (Paten, 2020). According to Peker (2020), the first influencers were the British Queen and the 18th century Pope who promoted the advantages of the use of medicine to the sceptical members of society. In 1760 English King George III supported the creation of a royal porcelain dish set. Instagram enabled further development of influencer marketing. Influencer marketing presents the marketing channel on social media through which influencers share brands` messages with recommendations of products on social media (Engaio Digital, 2023). Social media enablesd users to follow people and that following made it possible to discover various products used by influencers. TikTok provides a unique experience for its users with the option of the "for you page", on which the user is given content which is interesting to them specifically (Find your influence, 2021). Influencers prefer TikTok because they can be shown even to people who are not following them on the "for you page", which enables a greater reach and engagement of users. According to the Influencer Marketing Hub research from 2023, influencer marketing has reached a 16.7 billion dollars sum. The research was conducted from 2016 to 2022. In 2016 influencer marketing had a 1.6 billion value, 3 billion in 2017, 4.6 billion in 2018, 6.5 billion in 2019, 9.7 billion in 2020, 13.8 billion in 2021 and 16.7 billion in 2022. In the year 2022, the brands have increased the budget for influencer marketing. (Geyser, 2023). According to the research of Oberlo from 2023, up to 93% of marketing experts used influencer marketing in 2022, which made it the leading marketing tool of brands (Santora, 2023). Influencer marketing is used to achieve the following: brand building, the reach of a new target audience and an increase in sales. 61% of consumers trust influencers,with the majority of Instagram influencers being women (81%). For each dollar invested into influencer marketing, the conversion rate is 5.20 dollars (Sherpher, 2023). According to Storyclash (2023), in 2023 there were between 3.2 million and 37.8 million influencers worldwide. There is considered to be around 500,000 active influencers on Instagram. TikTok has created new influential people, who are active daily (Burton, 2021). For a successful ROI (Return on Investment) conversion, investment brands have to choose the "right person". Their reach and audience are critical for choosing the right influencer who will enable brand building, new followers and a sales increase (Forbes, 2022). By the number of followers, influencers can be divided into four main groups: Nano – up to 10,000 followers, micro – 10,000 to 100,000, macro – 100,000 to 1,000,000 and mega - over 1,000,000 followers (Santora, 2022). Although nano- and micro-influencers have a lower number of followers, their followers are engaged and active. They present the best option for smaller companies and for companies who want to test new products on the market. Macro- and mega-influencers are mostly famous people, e.g. bloggers, actresses etc. Although they have a higher number of followers, they usually have less engagement in relationto the number of followers and a higher cost of advertising (Santora, 2022). The influencer`s earnings depend on followers, e.g. Swiss model Alexa Collins, who has over 2 million followers, charges 1,000.00 dollars for each story on Instagram. Unlike Collins, Tyler Chanel, a micro-influencer with around 13,000 followers, charges 100 dollars for an Instagram story (McKinsey & Company, 2023). The highest paid influencers in the year 2023 were footballer Cristiano Ronaldo, who earned 3.92 million dollars per post, followed by Leo Messi with 2.94 million dollars and influencer Kylie Jenner with 1.8 million dollars (Sitchon, 2023).

The majority of human population uses social media and spends the average of 2.5 hours on social media (Wong, 2023). Retailers have recognised the sales potential of social media which shows a growing trend and they've recognized that influencers can increase the revenue on their online channels. Generation Z represents people born between 1997 and 2012. They are the generation born with social media, smartphones and digitalization. 94% of Generation Z uses social media and are present on YouTube, TikTok and Instagram. 44% of Generation Z have decided to make a purchase due to a recommendation on social media. A good indicator for influencer marketing is the fact that Generation Z believes influencers, but avoids advertisements (Salukov, 2023). Throughout history, people have had individuals who they followed and imitated and today that influence has been transferred to digital platforms through social media. Based on the positive financial indicators numerous brands use influencer marketing, although often unsuccessfully as they choose an influencer who does not represent their brand. Authenticity and emotional connection are influencers` main links to followers (Jun, S.Yi, J. 2020). It is crucial to find the right person who will represent the brand in a comprehensive way and promote it to their followers. A growing number of brands use micro-influencers (10,000 – 100,000 followers) as they have loyal and engaged followers. Despite the negative world economic forecasts, influencer marketing is expected to continue the global growth since it has become the leading tool in digital marketing (Schwarz, 2022).

3. USE AND IMPACT OF ARTIFICIAL INTELLIGENCE ON INFLUENCER MARKETING

Artificial intelligence presents a simulation of human intelligence generated by a computer programme. There has been an increased interest in artificial intelligence, especially in business processes (Burns, 2023). Artificial intelligence was first described by John McCarthy in a research "What is Artificial Intelligence?" from 2004. According to McCarthy, artificial intelligence is the science of creating smart robots, in particular smart computer programmes (IBM, 2023). It is expected that by 2025 robots and artificial intelligence will have a significant role in numerous business processes. It will have the greatest impact on health care, customer support and logistics. A renowned IT company IBM has shocked he public with a statement that it will replace 7,800 employees with artificial intelligence. According to the research by Pew Research from 2014, 48% of experts think that artificial intelligence will replace many workplaces and 52% think that it will create new workplaces (Stahl, 2022). Artificial intelligence is being increasingly used in stores. According to Alaba (2023), 37% of business organizations use artificial intelligence. It collects data with which customers` needs can be defined in real-time. Moreover, it enhances the sales department`s efficacy, shortens the time required for administrative work,enables efficient planning and predictions of purchases and sales. According to the Delloite research from 2022, up to 88% of examinees think that artificial intelligence improves business efficacy and satisfaction at work. Many marketing companies consider artificial intelligence crucial for further development of influencer marketing and a successful ROI. Influencer marketing presents the perfect business activity that can successfully blend human talent and artificial intelligence for successful marketing campaigns (WeAreTechWomen Team, 2023). According to a research by the Influencer Marketing Hub from 2023, 63% of marketing experts planned to use artificial intelligence in 2023, in order to find the right person for an influencer campaign (Geyser, 2023). 67% of brands do not believe influencers, e.i. they are worried about possible false data from influencers and 30% of them have difficulties with measuring influencer marketing ROI. Artificial intelligence algorithms can detect fraudulent behaviour in influencers, e.g. they can notice "fake" followers and comments which provide no ROI for the brands. "Fake" followers and comments from engaged influencers can harm the brand`s reputation.

Artificial intelligence tools enable a precise analysis of an influencer`s audience, create content for the target group, analyze marketing campaigns and measure ROI. Artificial intelligence prevents influencer scams by analyzing followers and measuring the influencer engagement. It can determine if the followers have been bought and it ensures the content is seen by the target group of the brand'sconsumers. Artificial intelligence tools can provide a detailed overview of an influencer's followers and select the followers based on their age, sex, language, location, interests, engagement and the competition`s advertising. These are basic data points that determine the target group of consumers for influencer marketing campaigns. The artificial intelligence tool HypeFactory helps with finding the right person by filtering them through 38 characteristics and finding the right influencer for the target group of consumers (WeAreTechWomen Team, 2023). It determines the demographic data of followers and creates content based on followers' preferences. Demographic data is relevant as an influencer can have 80% of followers that are younger than 16 and they do not represent the target group of the brand. Gender is relevant because a men`s clothing brand would not hire a female influencer for influencer marketing. A brand will not employ an influencer from Croatia to promote products for the American market. It takes a lot of time to examine the demographic data. Artificial intelligence helps with the faster collection of data, which is of great importance for a successful marketing campaign. It shows the real ROI data, which can help in negotiations with influencers (Mileva, 2023). Artificial intelligence tools enable the creation of content and posts with texts and pictures generated by artificial intelligence (Linkr, 2023). Brands can reduce costs with the help of artificial intelligence, e.g. a copywriter used for writing a text. Artificial intelligence tool ChatGPT can write scripts for influencers. A query "Influencer text for a clothing brand" generates a marketing text which can be used by influencers, if it is not suitable, another text can be generated. Artificial intelligence tools can carry out the tasks of writing and of generating pictures based on the marketing needs, which expedites the process and reduces the costs. Artificial intelligence helps brands as well as influencers in content creation. According to the International Data Corporation (IDC), brands will invest 110 billion dollars into consultations on artificial intelligence use by 2024. The use of AI in influencer marketing helps brands identify profitable marketing channels. A significant and noticeable impact of AI in influencer marketing is the presence of virtual influencers. They are computer-generated "people" that are virtual and have realistic characteristics, features and traits of humans. Their creators "decide" their appearance and way of behaviour (Mosley, 2023). According to the research of the Influencer Marketing Factory from 2022, 58% of examinees follow at least one virtual influencer and 35% of them purchased a product promoted by a virtual influencer (Bringé, 2022). In 2015 there were 9 virtual influencers and in 2022 the number reached over 200 (Hiort, 2022). Virtual influencers enable greater control and smaller expenses but they are not authentic and they can be frightening. Virtual influencers have a perfect face, body and they are never tired, which can have a negative influence on the younger population (Cowan, 2022). The market value of virtual influencers 4.6 billion dollars and it is estimated that by the year 2025, it will have grown by 26%. Brands like Puma, Alibaba and Samsung have used virtual influencers in their marketing campaigns to increase the younger population`s involvement. Considering the digitalization and the acceptance by the younger population, virtual influencers have a prospective future. YouTube and Instagram are the leading social media platforms on which virtual influencers are present. According to Sands, S. et al. (2019), people put more trust in real influencers than virtual ones, but virtual influencers have higher engagement and greater recommendation. The research has shown that virtual influencers have three times higher engagement from followers than human influencers.

According to the The Influencer Marketing Factory research from 2022, up to 75% of Generation Z members follow at least one virtual influencer. The reason why virtual influencers could replace the real ones is because the chances that the followers will meet the real influencers are low (Chow, 2023).

4. THE IMPACT OF THE #DEINFLUENCING TREND ON INFLUENCER MARKETING

Deinfluencing presents the latest trend in influencer marketing, it is an influencer`s presentation of products that consumers should avoid. It is recognized by the hashtag #deinfluencing on TikTok and Instagram. According to the GWI marketing agency`s research from 2020, 52% of examinees use TikTok to inform themselves about products and find their reviews. TikTok is becoming the leading social media platform users utilize to inform themselves about products. TikTok has created the de-influencer, an influential person who is transparent when it comes to the products`promotion. Consumers should be better informed about a product before purchasing it (Zimmerman and Sur, 2023). Deinfluencing has been accepted by both Generation Z and Millennials, who have rejected the consumer culture in order to decrease unnecessary spending. Many products have become popular due to brands' large investments in influencer marketing (McNeal, 2023). Deinfluencing is a novelty in influencer marketing which used to be based on positive reviews of products from influencers sponsored by brands. It is based on the influencer`s review of products that are overrated and they explicitly tell their followers they should avoid purchasing. Deinfluencers offer more affordable and often better alternatives of the reviewed products. According to the Influence.com research from 2019, 61% of examinees think that influencers should research the products that they promote, 62% of examinees think that influencers should not promote products that they have not used and 72% of examinees think that influencers should disclose the disadvantages of a promoted product as well (Suciu, 2019). The goal of deinfluencing is the decrease of spending money on unnecessary products (Hetler, 2023). It was created in 2023 on TikTok as a response to the promotion ofexcessive spending by influencers and a growing distrust towards sponsored content. An example of excessive spending is the promotion of clothes that will be worn solely for an Instagram post. Due to the numerous promotional posts of influencers, followers are eager to see authentic content (Mayer, 2023). According to the Influencer Marketing Hub research from 2023, 71% of marketing experts, brands and influencers have increased their marketing activities and according to the same research, 67% of brands have increased their budget for influencer marketing in 2023 (Santora, 2023). It is an interesting fact that 63.2% of marketing experts, brands and influencers feel the impact of the negative macroeconomic situation. Due to the increase in investments into the promotion of different products, the number of #deinfluencing hashtags is expected to grow. In February 2023 the number of views on the #deinfluencing hashtag on TikTok was 100 million and in April 2023 that number reached 551.9 million. In two months the number of views was increased five times, which proves the trend`s popularity. In the second month of 2024, views on the #deinfluencing hashtag reached 1.4 billion. Brands want to increase their sales with influencer marketing but due to the inflation, consumers tend to check reviews on the #deinfluencing hashtag more often. There is a rise in awareness of nature conservation which is harmed by purchasing and delivering unnecessary products which releases harmful gases into the atmosphere (Shadijanova, 2023). This trend will not reduce influencers' effects on followers. It helps build trust in brands and influencers, and enables followers to think twice about a purchase. Many influential people recommend looking up the #deinfluencing hashtag of a product before purchasing it. Deinfluencers often suggest cheaper alternatives to an overrated product. The hashtag #TikTokMadeMeBuyIt has reached an incredible number of 52.3 billion views, it shows posts of TikTok users who review products which they bought exclusively because of TikTok, e.i. they saw a promotional video on the

front page of the social media platform (Bae, 2023). #Deinfluencing presents a great option for reviewing a product before purchasing it and the hashtag #TikTokMadeMeBuyIt presents a great option for finding products which will provide the solution for a users' need. TikTok users use #TikTokMadeMeBuyIt to post about a product that they have seen on TikTok and which they would recommend to other TikTok users. They want to show the advantages of a certain product to others. This hashtag can help brands discover popular products for sale and it can help Tiktok users find practical products.

5. CONCLUSION

For a successful influencer campaign, it is necessary to find the "right person", e.i. the person who is aligns with the brand`s values. Finding the "right person" presents the key step in influencer marketing which can determine the campaign`s success. The available literature points out the significant impact of artificial intelligence on influencer marketing, which enables a precise analysis of the influencer`s audience, creates content for the target group, analyzes marketing campaigns and measures the return on investment. Most marketing experts planned on using artificial intelligence in 2023 in order to find the "right person" for influencer campaigns. Artificial intelligence prevents influencers` scams by analyzing the followers and measuring their engagement. AI tools make finding the "right person" with the help of the 38 demographic characteristics easier. Artificial intelligence can generate content for influencers and brands. Although AI offers many possibilities, it is a new technology that can lack accuracy and efficacy. A popular AI tool, ChatGPT, warns it can sometimes generate incorrect information about people, places and facts. Marketing experts should carefully track the efficiency of these tools in order to adapt their marketing strategies in accordance with the newest trends and changes. Virtual influencers are products of AI tools, they are computer-generated "people" who promote products on social media. According to a The Influencer Marketing Factory research from 2022, 58% of examinees follow at least one virtual influencer and 35% of them have bought a product promoted by a virtual influencer. New generations make purchases based on a virtual influencer`s recommendation. As many as 75% of Generation Z members follow at least one virtual influencer. It is estimated that the virtual influencer market will grow by 26% by year 2025 (Chow, 2023). The role of AI and its impact on influencer marketing are already noticeable, considering the fact that the artificial intelligence tools have become more relevant in 2023. Aside from the influence of AI, this paper analyzes the impact of the de-influencing trend impact on influencer marketing. Most people use social media to find reviews of certain products, many of which have become popular due to the large investments in influencer marketing and are, in most cases, overrated. The difficult economic situation caused by inflation has forced people to reduce consumption, especially of unnecessary items. Through #deinfluencing social media users can find videos in which creators review products and advise which products should be avoided. Deinfluencing was created as a response to many influencers and brands who are insincere in their approach and because the marketing campaigns were not ethical. The advantage of the #deinfluencing trend is that it encourages critical thinking about marketing campaigns and the creation of authentic high-quality content by influencers and brands. Brands and influencers should concentrate on transparency, ethics and social responsibility in their marketing campaigns. Deinfluencing could lead to changes in influencer marketing but it does not necessarily mean it will slow down their further development. Due to the impact of #deinfluencing brands will have to be more sincere when they use influencers to promote their products. This research explains all the possible ways in which artificial intelligence and the #deinfluencing trend have an impact on influencer marketing. The recommendation for future research includes the research of leading AI marketing tools, such as HypeFactory, CreatorIQ and Influsoft, which are used by brands with the sole purpose of finding the "right person" for influencer marketing

campaigns and conducting a research on the impact of the #deinfluencing trendon consumers in the Republic of Croatia. The impact of AI and the #deinfluencing trend on influencer marketing is undoubtedly great and significant. Influencer marketing will be able to accomplish further growth by adapting the new prospective trends when it comes to artificial intelligence and #deinfluencing.

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SDGS IN SUSTAINABILITY REPORTS OF TOURISM COMPANIES IN CROATIA

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ABSTRACT

The need for sustainability application in practice has been growing in importance for years now. Sustainability should be seen as a norm to be applied to various areas of activities and business. Out of the stakeholders relevant to tourism, this paper will research tourism companies in Croatia. In 2024, the Corporate sustainability reporting Directive (CSRD Directive) comes into force, and according to it all large companies, and small and medium sized companies that are public interest entities will have the obligation to prepare and disclose corporate sustainability report in upcoming years. However, reports in adherence to the new Directive will be published from 2025 and referenced on the year 2024. Until then, the provisions of Non-financial reporting Directive (NFRD) applies, according to which only large companies with more than 500 employees that are also public interest entities are obligated to prepare and disclose non-financial report containing sustainability information. The focus of the research will be the sustainable development goals (SDGs) disclosure by tourism companies in Croatia, as SDGs can be an integral part of sustainability reports. Considering the potential impact of tourism sector on environment and society, the goal of this paper is to research more in-depth which Croatian tourism companies provide information about SDGs within their sustainability reports and which information they mostly frequently disclose. The results have shown that only a few companies inform the public if their sustainability agenda is in line with SDGs. The main implication of this paper is to contribute to the importance of considering SDGs by tourism sector companies and about sustainability reporting of those companies in general. As for the practical implications of the research, those are reflected in encouraging tourism companies to systematically include SDGs into their business, thus impacting the operation of other stakeholders and consequently benefiting the destination they operate in.

Keywords: *sustainable tourism, SDGs, tourism companies, sustainability reporting, Croatia*

1. INTRODUCTION

The pursuit of global sustainability has been a long-sought for goal, whereas the United Nations (UN) set forth an ambitious agenda encapsulated within the Sustainable Development Goals (SDGs). This framework addresses multilayered challenges, aiming to foster prosperity, protect the environment, and promote inclusive societies by 2030.

Central to achieving these goals is the crucial role of corporations and companies worldwide, necessitating their active involvement in sustainable practices. One crucial mechanism through which companies prove their commitment to sustainable development is via sustainability reporting. Sustainability report is often referred also as nonfinancial reporting, however in this research the term sustainability report will be used to address the reporting on social, environmental and governance issues. This paper critically examines the significance of integrating SDGs within the framework of corporate sustainability reporting. It delves into the complexities, challenges, and opportunities inherent in this convergence, exploring the potential for corporations to contribute meaningfully to the global sustainability agenda while simultaneously enhancing their own operational resilience and value creation. Through a comprehensive analysis of publicly available data, this paper endeavors to shed light on the intricate interplay between SDGs and corporate sustainability reporting, offering insights into how businesses can become catalysts for transformative change in our quest for a more sustainable future, on the case study of tourism companies in Croatia. Sustainability and competitiveness in the tourism sector are interdependent, operating as interconnected elements rather than standalone concepts. Within destination competitiveness, sustainability holds a pivotal role. Weaver and Lawton (2014) highlight the significance of sustainability within the framework of the 'triple bottom line,' recognizing the equal importance of economic, environmental, and socio-cultural aspects for the long-term viability and success of destinations. Thus researching the connection between the two concepts of business and sustainability is still a current topic. Given the upcoming announcement of a new legislative framework aimed at disclosing corporate sustainability reports of public companies, this paper aims to reveal best practice examples of tourism companies which are already voluntarily demonstrating their sustainability efforts in line with the SDGs agenda. This paper is composed of five chapters. After the introduction, the literature review focuses on stakeholders in tourism followed by an overview of the UN's SDGs. The third chapter explains the applied methodology of research, while the results are presented in chapter four. The last chapter discloses key findings and conclusions.

2. LITERATURE REVIEW

2.1. Key stakeholders in sustainable tourism

Tourism represents a profoundly intricate and diverse industry, encompassing a multitude of components that together form a complex tourist experience (Ferri and Aillo, 2017). Various scholars have underscored the involvement of stakeholders in sustainable tourism development, including perspectives from Maiden (2008), Yodsuwan (2010), Dabphet (2013), Wanga et al. (2014), Kadi, Jaafar, and Hassan (2015), and Borodako and Kožić (2016). Freeman (1984) as cited in Perić, Đurkin, and Lamot (2014), defines stakeholders within an organization as groups or individuals capable of influencing or being impacted by the organization's objectives. These stakeholders harbor distinct perspectives on tourist destination development, characterized by differing goals, demands, ownerships, rights, and interests, spanning past, present, and future contexts (Krce Miočić, Razović, and Klarin, 2016). The identification of these stakeholders poses an exceedingly intricate challenge (Ryan, 2002), compounded by the absence of a definitive method or tool for stakeholder determination within the realm of tourism (Krce Miočić, Razović, and Klarin, 2016). However, delineating the primary stakeholders within tourism destinations and comprehending their respective roles facilitates the strategic planning of destination development and the overall management process. One of the most famous model of key stakeholder roles in the VICE model (Visitor, Industry, Communities and Environment. Other common stakeholders involved in the planning of tourism, as noted by Yigitcanlar (2009), encompass a range of entities: local businesses, residents, activist groups, tourists, national business chains, competitors, government bodies, and employees.

Additionally, other key stakeholders, as identified by Morrison (2013), expand the spectrum to include investors/developers, landowners, environmentalists (presented as activist groups), industry associations, tourism marketers, and various other entities. Morrison categorizes stakeholders in tourism into distinct groups: tourists (including leisure, business, etc.), tourism sector organizations (such as Destination Management Organizations [DMOs], hospitality sectors, attractions, transportation, travel trade, media, and employee organizations), the community (encompassing community organizations, resident associations, business associations, specialized panels, or task forces), the environment (including NGOs, conservation societies, environmental agencies), and governmental bodies at various levels (local, regional, state, etc.). These stakeholder groups wield influence over tourism development in multifaceted ways, impacting facets such as tourism supply and demand, regulatory frameworks, management of tourism effects, human resources, and research endeavors (Waligo et al., 2013, pg. 343). Stakeholder collaboration holds immense significance in ensuring the sustainability of tourist destinations, as emphasized by Byrd (2007) and Maiden (2008). Nerra (2017) underscores that effective stakeholder collaboration involves navigating diverse priorities, fostering consensus, improving problem-solving capabilities, fostering novel partnerships, and generating innovative ideas. Gergen, as cited in Garcia-Rosell (2014), asserts that the sustainability (or lack thereof) of tourism hinges on the social dynamics and coordination among stakeholders, with the environment posing a unique challenge due to its lack of direct representation. Several rationales support the alignment of stakeholder collaboration with sustainable development policies: firstly, it has the potential to engender greater consideration for the diverse array of natural, built, and human resources that require preservation. Secondly, it offers opportunities for integrative and holistic approaches to policy formation, thereby advancing sustainability goals. Thirdly, it facilitates a fairer distribution of resulting benefits and costs, fostering heightened awareness of tourism's impact on all stakeholders, and promoting more democratic decision-making (Maiden, 2008). Furthermore, effective collaboration among diverse stakeholders not only streamlines the development of intricate and sustainable tourist offerings (Garcia-Rosell, 2014; Ferri and Aillo, 2017) but also augments the long-term competitiveness of tourist destinations (Fathimath, 2015). A comprehensive overview of potential forms of bidirectional collaboration is detailed in the chapter expounding upon this matrix. Considering importance of stakeholders for tourism sector companies and stakeholder theory, “a principal function of company’s management is to handle the stakeholders’ need and expectations as well as to balance the different interests between them” (Herold, 2018, p.11). In doing so, sustainability report represents an important channel to communicate stakeholders about overall economic, social and environmental performance and to legitimate companies’ behavior (Hrasky, 2011). According to stakeholder theory, companies by prioritizing stakeholders’ interests, can improve their economic performance, reduce their environmental impact, and contribute to achieving the SDGs. (Raman et al, 2023)

2.2. Sustainable development goals

The Global Sustainable Development Report (GSDR) is the answer on climate changes that we are facing today. It’s history is connected with the outcome of the Rio+20 conference on sustainable development, “The Future We Want”. Then were made fundaments the 2030 Agenda for Sustainable Development and the 17 associated Sustainable Development Goals (SDGs). The goals connect 3 dimensions of sustainable development: economic, social and environmental, so the goals are crucial for our planet and humanity. The SDGs reflect the concept of including all segments of society in building a more sustainable planet for all humanity (Stuart and Woodroffe, 2016). In table bellow are presented sustainable development goals.

Sustainable development goal	Goal title and description
SDG 1	No poverty - End poverty in all its forms, everywhere.
SDG 2	No hunger - End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
SDG 3	Good health and well-being - Ensure healthy lives and promote well-being for all, at all ages.
SDG 4	Quality education - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
SDG 5	Gender equality - Achieve gender equality and empower all women and girls.
SDG 6	Clean water and sanitation - Ensure availability and sustainable management of water and sanitation for all.
SDG 7	Affordable and clean energy -Ensure access to affordable, reliable, sustainable and modern energy for all.
SDG 8	Decent work and economic growth - Promote inclusive and sustainable economic growth, full and productive employment, and decent work for all.
SDG 9	Industry, innovation and infrastructure - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
SDG 10	Reduced inequalities - Reduce inequality within and among countries.
SDG 11	Sustainable cities and communities - Make cities and human settlements inclusive, safe, resilient and sustainable.
SDG 12	Responsible consumption and production - Ensure sustainable consumption and production patterns.
SDG 13	Climate action - Take urgent action to combat climate change and its impacts.
SDG 14	Life bellow water - Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
SDG 15	Life on land - Protect, restore and promote sustainable use of terrestrial ecosystems; sustainably manage forests; combat desertification; halt and reverse land degradation; and halt biodiversity loss.
SDG 16	Peace, justice and strong institutions - Promote peaceful and inclusive societies for sustainable development; provide access to justice for all; and build effective, accountable and inclusive institutions at all levels.
SDG 17	Partnership for the goals - Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Table 1: Sustainable development goals
(Source: United Nations, n.d.)

These goals can be looked as a framework for the promotion and development of sustainable tourism (UN and UNDP, 2017), but also as a major focal point for the study of tourism's contribution to sustainable development (Hall, 2019; UNWTO & UNDP, 2017). Tourism as a component of economic growth, has the potential to contribute, directly or indirectly, to each of the 17 SDGs (UNWTO & UNDP, 2017). Looking specifically on tourism sector, the findings show that the hotel sector is committed to the SDG, but, on the other hand, there are variations in the ways hotels address the SDGs (Bacari et al, 2021, p. 9). Assessing tourism progress in meeting the SDGs is also complicated by the fact that since the SDGs are not independent of each other, progress toward one SDG may be at the expense of another (Laimer, 2017). There are also some other papers, like Alarcon and Cole (2021) who explore the interconnections between the SDGs and tourism from a gender perspective. To, easly implement SDGs Boluk, Cavalitere and Higgins-Desbiolles (2019) offer tools for critically thinking through the potential for the SDGs to help shape the tourism industry for more sustainable, equitable, and just futures in the way that position six themes to serve as a conceptual framework for interrogating the

SDG agenda in tourism; arising from their considerations of both reformist and radical pathways to sustainable transitions in tourism: critical tourism scholarship, gender in the sustainable development agenda, engaging with Indigenous perspectives and other paradigms, degrowth and the circular economy, governance and planning, and ethical consumption. (Boluk, Cavaliere Higgins-Desbiolles, 2019).

2.3. SDGs and sustainability reporting

Integration of SGDs into business strategies and operations contributes to achieving sustainability of business. Therefore, reporting on SDGs should be included into sustainability reporting. Sustainability report represents "a report published by companies on the environmental, social and governance (ESG) impacts of their activities that enables addressees and users to understand more clearly the impacts of a company's business activities on the environment and society and to assess the risks and opportunities companies face, or which are offered to them" (PWC, n.d.). Related to sustainability reporting, SDGs reporting can be defined as "the practice of reporting publicly on how an organization addresses the SDGs" (Rosati and Faria, 2019, p. 1313). Corporate reporting on SDGs is increasing, however it is mostly focused on developed countries (Low et al, 2023) and on large companies (Datta and Goyal, 2022). Elalfy et al (2021) also found that larger companies are more likely to report on SDGs, but added that publicly listed companies, companies in industries with higher sustainability impacts are also more likely to include SDGs issues into their reports. On a sample of Spanish companies, Curtó-Pagès et al (2021) found that adoption of GRI Standards or participation in UN Global Compact (signatory level) has positive effect on SDGs reporting. Using a sample of Italian companies, Pizzi et at (2020) found that presence of independent directors on the board, expertise with non-financial reporting, and length of the report have positive effect on SDGs reporting. As for the macroeconomics characteristic of countries in which companies operate, Rosati and Faria (2019, p. 1312) have found that companies "located in countries with higher levels of climate change vulnerability, national corporate social responsibility, company spending on tertiary education, indulgence and individualism, and lower levels of market coordination, employment protection, power distance and long-term orientation" are more likely to report on SDGs. Although the research on SDGs reporting is increasing, shortcomings in literature have been identified (Awuah et al, 2023), so there are significant possibilities for new research and contributions. Regarding the analysis in tourism sectors, a recent literature review by Law et al (2023) found only one study on SDGs reporting for hospitality sector, and no specific study for food and beverage sector.

3. METHODOLOGY

For purposes of this research sustainability reports of Croatian tourism sector companies have been considered. At the moment of conducting this research the last available reports were the ones addressing year 2022. In 2022, the provisions of NFRD Directive were in force, according to which only large public interest companies with more than 500 employees were obligated to prepare sustainability report. As for the definition of tourism sector, in this research the following activities have been included: Accommodation and food service activities (Sections "55" and "56" from National Classification of Activities) and Travel agencies, travel organizers (tour operators) and others reservation services and related activities (Section "79" from National Classification of Activities). According to Info.Biz (2024) there were 12 large companies with more than 500 employees with activities from tourism sector in 2022. Out of this number of companies, two (2) are not public sector companies and therefore not subject to NFRD Directive. Therefore, in 2022 year there were ten (10) companies from tourisms sectors in obligation to prepare sustainability report. Additionally, NFRD Directive allows that sustainability report is prepared as consolidated report on the level of parent company.

If a company is included in consolidated sustainability report then it is exempt from preparing separate sustainability report. From our starting sample one (1) company is part of other tourism sector company included in the sample. Additionally, two (2) companies from the sample are part of other companies whose main activities are not just tourism activities, but also production and financial services, and this company prepares sustainability report at the level of parent company which has been analyzed for purposes of this report. Considering all mentioned, the final sample comprised eight (8) sustainability reports whose content was analyzed. After defining the research sample, the content analysis of sustainability reports has been conducted. Sustainability report can be prepared as stand-alone report, or as a part of company' management report. Both possibilities have been considered for this analysis. First aim of content analysis was to determine if companies are referring to SDGs. The second aim was to determine which SDGs have tourism sectors companies identified are relevant to their business and to whose achievement they could contribute.

4. RESEARCH

As elaborated previously, this research included Croatian tourism sector companies obligated to prepare sustainability report for year 2022 in line with NFRD Directive (large public interest companies with more than 500 employees). In total, ten (10) companies met those criteria and basic descriptive statistics of their financial results are presented in Table 2. Total asset of considered companies ranged from 111,19 mil euros till 693,24 mil euros, with mean 325,68 mil euros. Total revenues range between 48,96 mil euros till 118,66 mil euros, with mean value od 118,66 mil euros. In average, considered companies are making profit, i.e. there are profitable (mean value is positive, 19,79 mil euros), however one company from the sample reported negative business result (loss) for year 2022, while all others reported positive business result (profit). Therefore, it can be concluded that in average tourism sector companies meet the basic economic sustainability, i.e. there are profitable. The economic responsibility of a company, i.e. being profitable, "is a baseline requirement that must be met in a competitive business world" (Carroll, 2016, p. 3).

	N	Mean	Min	Max
Total asset	10	325.677.725	111.187.621	693.239.000
Total revenues	10	118.664.889	48.955.679	331.190.596
Profit/loss	10	19.788.157	- 553.322	74.415.600
Number of employees	10	1.248	505	3.352

Table 2: Descriptive statistics of tourism sector companies obligated to prepare sustainability report in 2022
(Source: InfoBiz.hr)

This ten (10) companies made 0,06% of total number of companies in the tourism sector (year 2022). At the same time, these ten (10) companies controlled 23,57% of total tourism sector asset, achieved 18,49% of tourism sector total revenues and employed 14,47% of total employees within tourism sector companies (InfoBiz.hr, 2024). Therefore, by considering this ten (10) companies, research covered significant part of Croatian tourism sector what makes this sample representative. The next phase of research included analysis of sustainability reports of tourism sector companies in order to reveal if these companies have referenced SDGs in their sustainability report, and if yes which ones. The analysis was conducted on eight (8) sustainability reports. Out of eight (8) considered sustainability report, only three (3) of them include information about SDGs that companies have identified as important to them and to whose achievement they could contribute.

Additionally, one (1) company reported the list of activities with which it contributes to the achievement of SDGs, but without specifying which SDGs. Based on these results, it can be concluded that majority of tourism sector companies, obligated to prepare sustainability report, did not recognized the importance of reporting on SDGs. All three (3) companies have implemented the GRI standards for preparing sustainability report, so results are in line with the ones of Curtó-Pagès et al (2021) who found positive link between implementing GRI Standards and SDGs reporting. After identifying companies that include SDGs in their sustainability report, it was analyzed which SDGs these companies are referencing. In average, companies referenced nine (9) SDGs in sustainability report, where first company referenced twelve (12) SDGs, second company referenced eight (8) SDGs and third company referenced six (6) SDGs. It should be noted that sustainability report of second company included also activities outside tourism sector, however all material topic related to SDGs have been identified also for tourism segment of activities. The results of content analysis are presented in Figure 1, which shows the number of Croatian tourism sector companies referencing each of 17 SDGs. As it can be seen Goal 3 (Good health and well-being), Goal 4 (Quality education), Goal 7 (Affordable and clean energy) and Goal 8 (Decent work and economic growth) are referenced by all three companies. Based on this limited data, it can be concluded that these SDGs are the most important from tourism sector companies point off view. From Figure 1 it can also be noted that not a single company has referenced Goal 1 (No poverty), Goal 2 (Zero hunger), Goal 10 (Reduced inequalities) and Goal 15 (Life on land).

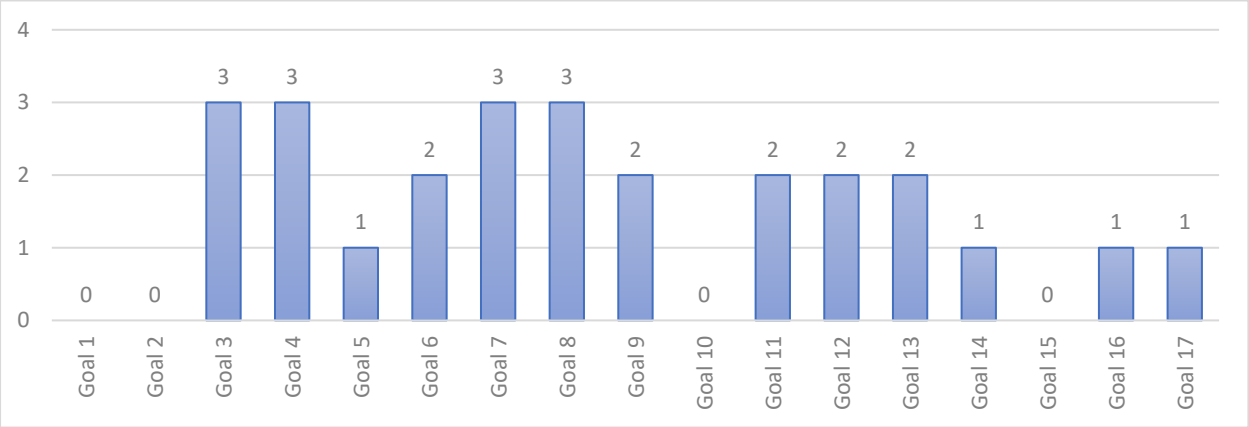

Figure 1: Number of Croatian tourism sector companies referencing SDGs in sustainability report for 2022
(Source: Authors)

5. DISCUSSION AND CONCLUSION

After the introduction of SDGs by UN, they have come into focus of wider community. Companies are also part of this community, and undoubtedly, they can significantly contribute to the achievement of defined SDGs. Tourism sector is characterized as sector with significant environmental and social impact, but also as environmentally and socially depended. Therefore, tourism sector companies have significant potential to contribute to the achievement of SDGs, but also, they can have significant benefits of SDGs realization. Considering the importance of tourism for Croatian economy (tourism made 19,5% of Croatian GDP in 2022 (Ministry of Tourism and Sports of the Republic of Croatia, n.d.)) and its possibility to influence realization of SDGs, the objective of this paper was to explore whether Croatian tourism sector companies have recognized importance of SDGs and if yes, which ones. The research was carried out by exploring company's sustainability reports since these reports contain information about companies economic, environmental and social impact what is related to SDGs.

Based on conducted research, it can be concluded that Croatian sectors companies did not fully recognized the importance and benefits of SDGs and reporting on it since only 37,5% sustainability reports contain reference to SDGs. Additionally, companies are referencing in average nine (9) different SDGs, i.e. a little bit more that half of them. The SDGs most popular within tourism sector companies are Goal 3 (Good health and well-being), Goal 4 (Quality education), Goal 7 (Affordable and clean energy) and Goal 8 (Decent work and economic growth). From these results it can be seen that tourism sector companies give advantage to social SDGs (Goal 3, 4 and 8). At the same time only one (1) environmental SDG (Goal 7) has been mentioned by all three companies referencing SDGs within their sustainability report. Obtained results have several implications. Firstly, SDGs reporting by tourism sectors companies should be improved. More companies should identify how their activities contribute to SDGs and report on it. Secondly, tourism sector companies should recognize that their activities can contribute to achievement of larger number of SDGs. Neither company recognized the possibility to contribute to achieving Goal 1 (No poverty), Goal 2 (No hunger), Goal 10 (Reduced inequalities) and Goal 15 (Life on land). However, by proving job opportunities, fair work salaries and decent work conditions tourism sector companies for sure can indirectly contribute to achieving Goal 1 and 2. Considering recent trend of employing significant number of workers from lees developed countries, tourism sector companies for sure can contribute to achieving these two goals. Improved SDGs reporting could also be beneficial for stakeholders and this could result in higher level of their satisfaction. Satisfied stakeholders are also in the interest of companies, since satisfies guest will be motivated to return, satisfied employee with be more motivated to work etc. The main limitation of this research is in small sample, since only ten (10) companies and eight (8) sustainability reports have been considered. However, it should be kept in mind that tourism sector in Croatia is very concentrated with low number of companies holding significant part of sectors total revenues. Research in this filed should continue by analyzing more in detail the disclosed information. The new CSRD directive will provide more sustainability report to be included into research which will results with more quality conclusions and contribution.

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THE IMPORTANCE OF SOFT SKILLS DEVELOPMENT IN BUSINESS ORGANISATION

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ABSTRACT

To be successful in a contemporary competitive and dynamic environment, employees must develop and continuously improve their skills, especially soft ones. While hard skills are vital for performing tasks, soft skills are essential for effectively interacting with others and navigating various situations. Increased importance of soft skills is encouraged by development of new ways of work organisation and increasing presence of customers in business processes. To raise work efficiency, the organisation must provide its employees with training and development programs designed specifically to encourage and develop soft skills, which complement technical abilities and often are the ones defining the successful professionals and distinguish him/her from others. These skills are necessary for professional development, effective teamwork, leadership, and handling different aspects of work. This paper analyses data collected through a questionnaire conducted in three countries of the European Union (Italy, Latvia, and Croatia), on a sample of 80 managers. Survey was designed to examine what soft skills firms require and which ones from those employees lack, as well as to investigate whether companies offer training to improve and develop soft skills among employees. The research confirms the importance of soft skills, especially critical thinking, emotional intelligence, creativity, and complex problem solving. Although the majority of examinees admit the importance of soft skills of their workers, there is a large lack of training programmes or any kind of organised activities for their development.

Keywords: *business organisation, soft skills, formal training*

1. INTRODUCTION

The process of digitalisation and globalisation affects all aspects of modern economies and results in rapid changes in the labour market. Such changes cause the appearance of new patterns of behaviour between employers and employees, the opening of new and closing of existing jobs, and they place new demands on employees who must learn and adapt to changes in the global and national labour market (Eberhard et al., 2017). Employees must navigate new work environments and possess a wide range of professional knowledge and skills acquired through education, work experience and training. Malykhin et al. (2021) point out that the greatest challenge of modern companies in terms of human resources is their inability to manage interpersonal relationships, i.e. the lack of soft skills. Therefore, most employers today expect workers to possess and develop these skills (Rothwell & Arnold, 2007). The development of soft skills depends on the relationship between innate contextual factors and personality traits.

In order to achieve a high performance culture, an organisation must provide its employees with training and development programs created explicitly to build, encourage and change their attitudes. The lack of competence in soft skills is recognized as one of the important reasons why individuals with technical knowledge have a low employability rate (Bora, 2015). Because of the above, soft skills training programs are becoming a necessity for entering the labour market in any sector of the economy, and their role should not be ignored. The training programs aim to improve a range of skills, such as the skills of establishing and maintaining interpersonal relationships, communication skills, assertiveness and negotiation skills. According to Heathfield (2008), training is a significant element in constructing a high-performance culture. In organisational settings, the interaction between soft skills and training programs seems to be critical to improving employee performance. Since training organisations enable the achievement of a high-performance culture, it is important to know which training and development program the organisation should use to change the culture, that is, the attitude and behaviour of employees. In the business world, employee training can generally be divided into hard skills training and soft skills training. Hard skills usually refer to technical or administrative procedures related to the organisation's operations (Ibrahim et al., 2017). The term soft skills refers to habits, qualities and social attitudes that make someone a good and cooperative person (Lorenz, 2009). Hard skills are usually easier to measure and quantify, and to acquire because they are sets of already known skills and do not involve behaviour change. Even though soft skills are usually difficult to observe, measure and quantify, since they cover a wide range of competencies, most employers in today's business world expect workers to possess them. Soft skills are not substitutes for hard or technical skills, but act as skills that enhance the work performance of all people, especially those who possess good hard skills (Bora, 2015). In general, soft skills complement hard skills and improve communication, leadership, problem solving, teamwork and other essential aspects of organisational functioning. The management of many, both state and private organisations, must ensure that their employees meet certain requirements regarding academic and technical knowledge in various fields - hard skills. However, it is not fully established which soft skills are considered key to employee performance within an organisation. Therefore, identification of different skill sets becomes necessary to differentiate and evaluate employees. The aim of this paper is to identify the soft skills that managers believe increase employability and to determine which soft skills employees possess and which should be developed. Furthermore, to examine what soft skills firms require and which ones from those employees lack, as well as to investigate whether companies offer training to improve and develop soft skills. The data used in this research were collected by a questionnaire conducted in Italy, Latvia and Croatia on a sample of 80 managers. The rest of the paper is structured as follows: in the next part, the conceptual framework is presented, followed by a description of the data, model and research results. The paper ends with concluding remarks.

2. CONCEPTUAL FRAMEWORK

The increasing demand of employers for the soft skills of employees is a consequence of the development of new organisations and new ways of working. These skills include the ability to communicate (social and interpersonal skills), empathy (emotional skills) and a sense of involvement and initiative, but also certain physical and psychological qualities such as appearance and personality (Bailly & Léné, 2012). There are a large number of papers on the importance of different soft skills. However, it is difficult to rank the relevance of soft skills since there is no unified framework for their terminology and definition. Bolli & Renold (2017) summarised the existing literature that provides empirical evidence on a broad set of soft skills.

They identified and ranked the following soft skills:

- Communication
- Teamwork
- Decision making and problem solving
- Ethics, Integrity and Responsibility
- Time management
- Self-motivation
- Willingness to learn

Similarly, the study conducted by Polakova et al. (2023) aimed to provide a theoretical description of the importance of soft skills and their categorization, while empirical research focuses on the demand for such skills. Research results suggest that the most desirable soft skills employers are looking for are: communication, analytical and critical thinking, problem-solving, taking responsibility, flexibility, value orientation, organisational/managerial skills, well-being focused, and teamwork. Soft skills such as verbal and written communication, empathy and listening are important for clearly communicating ideas, instructions and feedback and fostering better relationships within teams. The ability to empathise is an essential quality for all professionals whose job is related to people. In a business environment, empathy helps in building relationships between employees, improves the culture of communication in the organisation, and helps in solving business problems more efficiently (Sergej et al., 2020). Ibrahim et al. (2017) investigated the effect of soft skills acquisition and training on employee performance. Research results suggest that acquisition of soft skills and training significantly predict employee performance. Puccio et al. (2020) investigated the impact of training on idea generation and the creative process of idea generation, creativity of solutions and leadership effectiveness. Based on the research, they concluded that the groups of respondents who had creative training were significantly more effective than those without it. Adaptability, resilience, and openness to change enable employees to navigate uncertainty, quickly learn new production processes, and thrive in dynamic work environments. Furthermore, critical thinking, creativity and problem solving are key skills to innovate and drive business growth. Employees who possess these skills can identify opportunities, come up with creative solutions and effectively overcome challenges, leading to improved processes and products. Hence, soft skills are also important for innovation processes, efficient use of human resources and adaptation to the requirements of a flexible organisation. Very often, inadequate communication strategy and tactics are cited as the failure of organisational changes, so communication is a process on which the introduction and development of organisational changes depends. The success of any change depends on how the strategy and content of that change are communicated. Therefore, the process of communicating an innovative idea should not be an information process but a joint process of exchanging ideas and thoughts. Consequently, managers are expected to develop communication skills to be able to communicate effectively, as this is a key element for implementing a successful innovation (Sadeh & Feniser, 2021).

3. DATA DESCRIPTION, MODEL AND RESEARCH RESULTS

Data used in this paper are primary data collected as part of the ESSENCE[1] project on a sample of 80 managers equally spread among micro, small, medium, and large firms in three EU countries: Croatia, Latvia, and Italy. Managers were given a questionnaire with the aim to discover which soft skills, according to their opinion, increase employability. Importance of the skills is emphasised by Klaus (2010) who suggests that 75% of long-term job success depends

[1] ESSENCE project is Erasmus + project that intends to improve employability opportunities for HE students by stimulating soft skills development (https://projectessence.eu/index.php)

on people skills, that is why we investigated which soft skills are the most required by firms, as well as which of those job candidates lack the most. Managers in our survey were firstly asked to give an answer to two questions. First one was: "In your opinion, which soft skills increase employability?" Soft skills that the majority of managers pointed out were critical thinking, creativity, complex problem solving, emotional intelligence, and coordinating with others (Figure 1). The second question was: "Which soft skills are missing from candidates in your organisation?" and again managers identified the same ones implying that candidates initially miss the most required soft skills. This is in accordance with some previous research, such as Murphy et al. (2013) who identified interpersonal skills and problem-solving skills, to have a large gap between the importance of the skill and the actual performance of candidates.

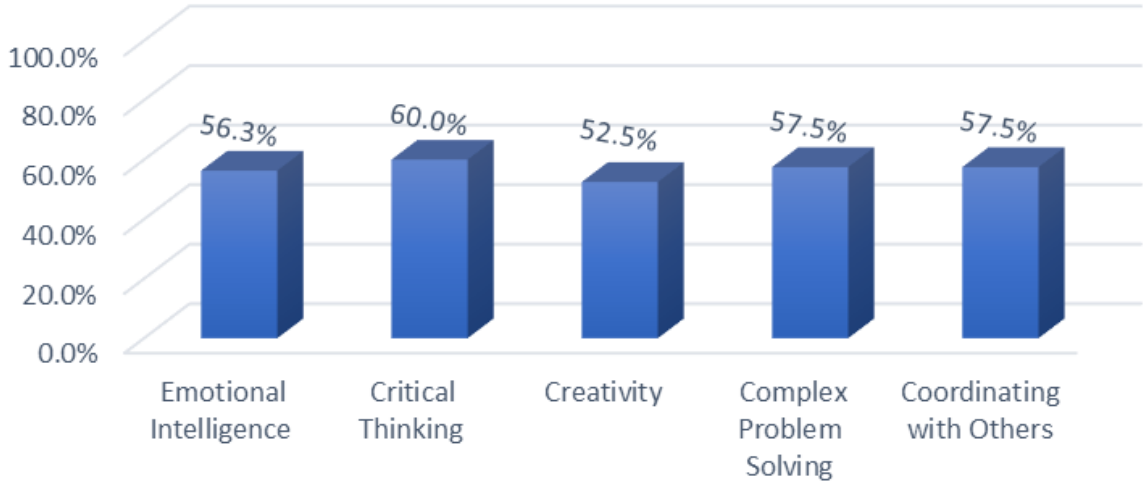

Figure 1: Soft skills that increase employability.
Source: Authors

Poláková et al. (2023), World Economic Forum (2016) and Eberhard, Birgit et al. (2017) provide taxonomy of soft skills, the list of core work-related skills, and the skill portfolio. Based on mentioned research papers, skills emerged through this research can be divided into intrapersonal and interpersonal ones:

- Intrapersonal skills are those oriented to individuals related to self-management and cognitive skills.
  - Emotional intelligence is a skill pronounced in work with other people when employee is sensitive to others, cooperative, easy to get along with, and enjoying working with others;
  - Critical thinking is a skill that includes an individual's ability to analyse collected information and solve problems logically. In addition, it includes identifying the strengths and weaknesses of different approaches to problem solving, as well as evaluating the effects of same approaches;
  - Creativity is a skill or ability to use the imagination and to approach a task/problem differently, in a completely different or new way, generating new ideas.
- Interpersonal skills improving individual's work with others and increasing efficiency
  - Complex problem solving is an ability to apply the knowledge that individual has in solving complex problems;
  - Coordinating with others contributes to better relationships, more creative and effective problem-solving and higher productivity.

After identifying soft skills which, according to the managers' opinions, are increasing employability, the second step was to investigate how firms recognize soft skills that are important for the firm and required from job candidates (Figure 2). Managers were allowed to give multiple answers to the question "How do you recognise the need for soft skills among your employees?". The most common method they listed was the observation in daily work - 70% of managers stated that this was the way of monitoring skills in their firm. Second most common way is through assessment - two thirds of managers said that they used one of the assessment methods in firms they work at. In this paper this method included self-assessment, peer-assessment, and supervisor-assessment. Finally, 30% of managers said that they use interviews with the employees and collecting employees' opinions on the topic.

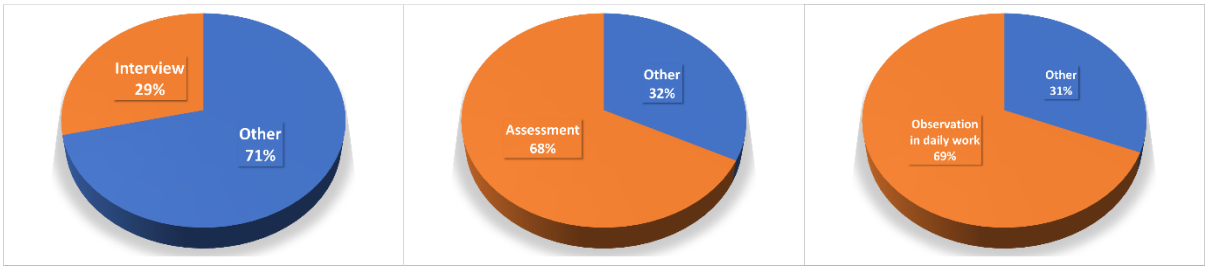

Figure 2: Methods of identifying important soft skills in the firms
Source: Authors

Managers were allowed to give multiple answers to the question which resulted in the fact that most of them listed several methods at the same time and 12.5% of them stated that their firm uses all three methods (Figure 3).

Figure 3: Overlapping of different methods
Source: Authors

Research of Campos et al. (2017) suggests that training programmes in firms, both traditional and contemporary ones, have effects on business practices but also on profits even for years after training activities have been undertaken.

Adhvaryu et al. (2018) also find large and persistent productivity impacts of soft skills improvements. Figure 4 shows the share of firms in our survey that offer a formal training dedicated to the soft skills development to new employees.

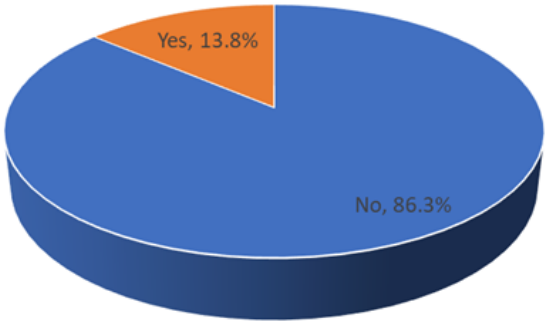

Figure 4: Incidence of trainings dedicated to soft skills development
Source: Authors

Only about 14% of firms offer training. Interviewed managers stated that training can be organised either to all new employees, to some selected individuals or to those who willingly apply to undertake such investment in their own skill development. The main reason for such a small share of formal educational activities was explained by the fact that training of employees is mostly done through informal channels. This finding provided the motive to investigate the elements important for the training offer dedicated to soft skills development or improvement. Table 1 shows variables used in the analysis.

Dependent Variable	
Training offer	1 - Firms offer formal training
	0 - Firms do not offer formal trainings
Independent variables	
Industry	1 - Industry (A-G)
	0 - Other
Firm size	1 - Micro
	2 - Small
	3 - Medium-sized
	4 - Large
Interview	1 – Firms interview employees to identify important soft skills
	0 – Firms do not use interview
Assessment	1 – Firms use peer, supervisor, or self-assessment in order to identify important soft skills
	0 – Firms do not use assessment
Observation	1 – Firms use observation in daily work in order to identify important soft skills
	0 – Firms do not use observation in daily work

Table 1: Variables in the model

Since the dependent variable has two values, binary logistic regression is used to determine the elements that influence the probability of training offered for soft skills development in the organisation.

General version of the model is:

$$ln\ ln\ \frac{P(1)}{P(0)} = const. + \beta_1 Industry + \beta_2 FirmSize + \beta_3 Interview + \beta_4 Assessment + \beta_5 Observation$$

P(1) is the predicted probability of the event which is coded with 1 (in this case the probability that firms offer formal training for developing soft skills), and P(0) is the predicted probability of the event which is coded with 0 (firms not offering formal training). Independent variables and possible determinants of educational activity of the firms are industry in which they operate, firm size and different methods they use to discover the importance of certain skills in the organisation. We created several models. Firstly, we investigated the impact of every variable individually, after which we also investigated the combined influence of certain variables. Diagnostics of the model show that our model fits reasonably well. Results are given in the table below (Table 2).

Dep. var. Training offer	Regression 1	Regression 2	Regression 3
Constant	-3.183138**	-3.91249**	-4.085144
Industry	1.600073*	-	-
Firm size Small Medium Large	 -1.323202 -0.0480802 1.50406	-	-
Interview	2.58089**	3.199063**	3.105553**
Assessment	0.3963717	0.6594593	-
Observation in daily work	-1.329966	-1.014176	-
Industry#Firm_size Services#small Services#medium Services#large Industry#medium Industry#large		- 0.275943 -0.830288 1.941569 3.049635* 3.199063**	- 0.285465 -0.8918152 1.882317 3.04194* 3.195266**
Assesment#Observation Observation only Assessment only Assessment#observation			- -0.7426917 0.9352387 -0.234587
	Number of obs = 80 LR chi2(7) = 18.33 Prob > chi2 = 0.0106 Log likelihood = -22.866894 Pseudo R2 = 0.2861	LR chi2(8) = 20.79 Prob > chi2 = 0.0077 Log likelihood = -20.219983 Pseudo R2 = 0.3395	LR chi2(9) = 20.84 Prob > chi2 = 0.0134 Log likelihood = -20.194313 Pseudo R2 = 0.3403
	Sensitivity 36.4% Specificity 100 Overall 91.3% Hosmer-Lemeshow chi2(8) = 12.51 Prob > chi2 = 0.13	Sensitivity 36.4% Specificity 100 Overall 90.14% Hosmer-Lemeshow chi2(8) = 9.92 Prob > chi2 = 0.27	Sensitivity 36.4% Specificity 100 Overall 90.14% Hosmer-Lemeshow chi2(8) = 12.51 Prob > chi2 = 0.13

Notes: * significant at 10%
** significant at 5%

Table 2: Binary logistic regressions results
Source: Authors' calculations

First regression that included variables individually shows that statistically significant variables are industry and interview implying that firms in industry are more likely to offer training in soft skills development than firms in services. Furthermore, results imply that those who use interviews with employees in examining the situation in the firm are more probable to offer training. Second regression examined the combined influence of the industry and firm size, and results suggest that size matters in combination with the sector in which firms operate. In this case, medium sized and large firms in industry are more likely to be the ones investing in the development of soft skills of employees. Third regression investigated the impact of different methods combination to the probability of the training offer, but this variable turned out to be statistically insignificant. Interview as a method to examine which skills are required in an organisation turned out to be statistically significant in all regressions implying that firms which focus on human resources and have dedicated methods in analysing the situation in the organisation are those which also invest in development of their human resources. Finally, results suggest that micro and small organisations approach soft skills in a more relaxed manner and more informally than larger organisations.

4. CONCLUDING REMARKS

To be successful in a contemporary competitive and dynamic environment, employees must navigate new work environments. This implies the necessity to possess a wide range of skills acquired through education, work experience and training. While hard skills are vital for performing tasks, soft skills are essential for effectively interacting with others and navigating various situations. Soft skills act as skills that enhance the work performance of all people, especially those who possess good hard skills. Training programs, aimed at improving soft skills, are becoming an essential for entering the labour market in any sector of the economy. The aim of this paper was to explore which soft skills increase employability, as well as to establish a gap between the importance of the skill and the actual performance of candidates in business organisations. Results of the survey suggest that managers indeed perceive soft skills as crucial assets of the firm, especially creativity, emotional intelligence, complex problem solving, critical thinking and coordinating with others. They also suggest that usually candidates for jobs do not initially possess required soft skills, which implies a necessity of their development in everyday work. However, only a small share of firms offers formal soft skills training and according to our research results those are more probably medium-sized or large firms in the industrial sector. Furthermore, firms which do not offer formal training, try to develop soft skills through informal channels. All respondents acknowledged the importance of soft skills in their firms and confirmed that they use different methods to identify important skills. Most common method in identifying skills is observation in daily work, followed by assessment, which can be carried out in three different ways: peer assessment, supervisor assessment and self-assessment. However, interviews with employees turned out to be a statistically significant method associated to the probability of formal training offer. This implies that firms who do offer formal training to improve soft skills of employees probably have a dedicated and systematic approach to human resources development. The limitation of this research refers to the geographical scope of the sample, which is limited to three EU countries. The research needs to be expanded to more countries to include social and cultural influences. Such an approach would increase the possibility of generalisation of our findings. Another limitation is the static nature of the collected data. Conducting research over several years could improve the accuracy of our findings regarding the importance and demand for soft skills. Theoretical and practical recommendations emerge from the research results. Organisations that plan to develop their employees in the area of soft skills should introduce soft skills training programs. Explicitly, the improvement of soft skills will most likely have a positive effect on increasing employees' work performance.

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ESG'S INFLUENCE ON BOARD MEMBERS AND THEIR EVOLVING DUTIES

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ABSTRACT

Growing concerns about sustainability have catapulted corporate ESG (environmental, social and governance) duties and responsibilities into the spotlight. In this paper, authors will examine the interplay between corporate governance, ESG matters and their effect on decision-making process in companies. Corporate governance extends beyond its role as the "G" pillar in ESG, becoming instrumental in shaping, implementing, and overseeing decisions related to sustainability issues. Corporations must consider the full extent of their environmental footprint. Defining new balanced approach between environment, workforce, consumers and community becomes Board members most significant assignment and duties. Strengthening duty of care and related ESG factors are increasingly being incorporated into company's documentation and core values, to become woven into corporate culture. Recent European law practice opened director's responsibilities for ESG matters, such as Dutch Shell, RWE, BNP Paribas etc. Considering their responsibilities towards community and environmental issues, such as necessary measures to reduce CO2 emissions, harder and faster than the board was currently planning. Behind each breach of a company's environmental or social commitments lies ineffective corporate governance. By their new trend in ruling, courts entered governance decision-making process, and have ruled on board member's obligation to improve company's strategy and plan for cutting carbon emissions. The interaction is multi-faceted, involving both investors and investee companies. A pivotal concept explored is the ESG cascade effect, illustrating how companies, through ESG-oriented decisions, can systematically influence others, including investors, investee companies, and their broader supply chain and community. This analysis contributes to understanding the structural and reciprocal nature of corporate governance's involvement in the ESG regulatory framework.

Keywords: *Board members duties and responsibilities, Corporate governance, Duty of care, ESG, low-carbon economy*

1. INTRODUCTION

Board members are tasked with delineating a balanced approach that reconciles competing interests across environmental, social, and economic domains. Strengthening the duty of care towards stakeholders and integrating ESG considerations into corporate governance frameworks are becoming imperative. This entails incorporating ESG principles into company documentation and core values, thereby fostering a culture of sustainability and responsible business practices.In this context, board members shoulder significant duties encompassing the formulation and implementation of a balanced approach that considers environmental, social, and governance (ESG) factors. Their responsibilities extend beyond traditional governance roles to include actively shaping corporate strategies that align with sustainability objectives. Board members are tasked with overseeing the integration of ESG considerations into decision-making processes, ensuring that the company's actions reflect a commitment to environmental stewardship, social responsibility, and ethical governance practices.

They play a crucial role in strengthening the organization's duty of care towards stakeholders, including employees, consumers, communities, and the environment. This may involve setting clear ESG goals, monitoring performance against these objectives, and fostering transparency and accountability in reporting ESG-related metrics. Moreover, board members are instrumental in embedding ESG principles into the company's culture, fostering a mindset that values sustainability as a core business imperative. By championing ESG initiatives and embedding them into corporate governance frameworks, board members contribute to the long-term resilience, reputation, and success of the organization in an increasingly sustainability-focused business landscape.

2. DUTIES IN PROMOTING esg STRATEGIS

Board members can effectively fulfill their duties in promoting ESG integration by employing several strategies.

- A/Setting Clear ESG Goals: Board members can initiate discussions and establish specific, measurable, and achievable ESG goals aligned with the company's mission and values. These goals should cover key areas such as environmental impact reduction, social responsibility initiatives, and governance improvements.
- Integrating ESG Considerations into Strategic Planning: Board members should ensure that ESG considerations are integrated into the company's strategic planning process. This involves evaluating how ESG factors may impact business operations, identifying risks and opportunities, and developing strategies to mitigate risks and capitalize on opportunities.
- B/ Monitoring and Reporting ESG Performance: Board members play a crucial role in overseeing the monitoring and reporting of the company's ESG performance. They should establish robust monitoring mechanisms to track progress towards ESG goals, regularly review ESG-related metrics and performance indicators, and ensure transparent reporting to stakeholders.
- C/Engaging with Stakeholders: Board members should actively engage with stakeholders, including shareholders, employees, customers, communities, and regulators, to understand their expectations and concerns regarding ESG issues. By fostering open dialogue and collaboration, board members can incorporate stakeholder perspectives into decision-making processes and enhance the company's reputation and credibility.
- D/ Providing Oversight and Accountability: Board members are responsible for providing oversight and accountability in ESG matters. This includes regularly reviewing ESG policies and practices, conducting independent audits or assessments of ESG performance, and holding management accountable for achieving ESG goals and targets.
- E/ Building ESG Expertise: Board members should seek to enhance their understanding of ESG issues and best practices through ongoing education and training. By staying informed about emerging ESG trends, regulations, and standards, board members can effectively fulfill their responsibilities and provide strategic guidance to the company.
- F/ Embedding ESG into Corporate Culture: Board members can play a pivotal role in embedding ESG principles into the company's culture by promoting a values-driven approach to decision-making, fostering a culture of transparency and integrity, and recognizing and rewarding ESG leadership and innovation.

Overall, by taking proactive steps to integrate ESG considerations into strategic decision-making, monitoring performance, engaging with stakeholders, and fostering a culture of accountability and transparency, board members can effectively fulfill their duties in promoting sustainable and responsible business practicesIn carrying out decision-making, corporate law imposes on boards a fiduciary duty of care to act on a reasonably informed basis after due

consideration of relevant information and appropriate deliberation. This means that directors must take actions necessary to assure themselves that they have the information required to take, or refrain from taking, action; that they devote sufficient time to the consideration of such information; and that they obtain, where helpful, advice from appropriate experts. Long-term value maximization as the corporation's purpose and objective is entirely consistent with the board's fiduciary duty[1]. The board serves as the governing body of a company, holding a pivotal role in fulfilling the corporate purpose across various jurisdictions. While the composition and responsibilities of the board may vary, its significance remains undeniable. Even in cases where duties are distributed among multiple management and supervisory organs, such as a management board comprised of one or more members and a supervisory board, the board's overarching responsibility persists. Within the framework of EU company legislation, the board is explicitly recognized as the "administrative or management body" of the company[2]. Despite ongoing advancements in technology, which have seen attempts to introduce artificial intelligence into decision-making processes, the board predominantly comprises human decision-makers. This underscores the enduring centrality of human judgment and expertise in governance structures, emphasizing the indispensable role of the board in driving corporate governance and strategic decision-making processes. The board plays a pivotal role within the company, serving as its primary decision-making body. It holds the authority to enter into contracts on behalf of the company, and consequently, the company is legally bound by these agreements. Furthermore, any harm resulting from the board's actions or omissions is attributed to the company as a legal entity. National company laws often include provisions to enforce the duties of the board and its members, holding them directly liable for any breaches of their responsibilities. This liability extends not only to the company itself but also to its shareholders and any other parties adversely affected by the board's actions. Assessing the effectiveness of board duties requires a comprehensive examination of how these obligations are enforced within the legal framework of company law, particularly regarding board liability provisions.[3]This obligation would involve the responsibility to evaluate and, if required, modify the corporate business model and strategy. It would also entail revisions to risk management practices, with mandatory sustainability due diligence serving as a critical instrument for boards to fulfill this obligation.[4] Board members are entrusted with the paramount duty of acting in the company's best interests, serving as its agents. This obligation takes precedence over their responsibility for the day-to-day operations of the company. Within corporate governance, the agency relationship is characterized by the dynamic between the owner, or principal, and the director, or agent. This arrangement involves a shareholder delegating the task of managing the company to its directors, thereby establishing a fiduciary relationship wherein directors are obligated to prioritize the company's welfare above all else[5]. According to agency theory, the primary challenge in corporate governance arises from the actions of directors who act as agents, potentially conflicting with the goals and interests of shareholders who are the principals. This agency relationship is established due to the incapacity of individual company members or shareholders, at certain stages of the company's growth, to effectively fulfill the role of both a member or shareholder and a director[6]. Key performance indicators (KPIs) are implemented to address these agency issues by evaluating directors' responsibilities,

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subsequently influencing their remuneration policies. Business practices, supported by a legal framework, are employed to assess and gauge directors' conduct. However, the establishment of a successful KPI model requires clarity regarding directors' roles and responsibilities, as well as an unimpeded flow of information. Consequently, recognizing the necessity for more capable directors, owners often opt to hire professional directors. The business judgment rule serves as a standard for the expected conduct of board members in decision-making processes.

3. FRAMEWORK FOR LAW CASES BASED ON ESG RESPONSIBILITES

USA courts have recognized and accepted that, outside of the context of a change-of-control transaction, corporate boards can and should take into account the interests of all relevant stakeholders in pursuing long-term value for the corporation. Doing so is consistent with the fiduciary duty of care, as well as with the board's obligation to implement and monitor systems to identify material risks, and to address risks once identified. It is imperative that companies oversee and address ESG and sustainability-related risks as such risks can damage and disrupt a corporation's strategies, business positioning, operations, and relations with stakeholders. [7]Whether or not directors should face liability for failure to monitor ESG-related risks, it is clear that directors may consider such issues in connection with their duty of care and, indeed, must do so to preserve and protect the long-term value of the company. The duties of care and loyalty are foundational principles that guide the conduct of board members in their roles. Duty of care necessitates that directors exercise diligence and prudence comparable to that of a conscientious and orderly businessperson. This duty entails fulfilling their responsibilities in a manner they reasonably believe to be in the best interests of the company, with a focus on enhancing the company's profitability and benefiting its members. Within the framework of due diligence, directors are expected to act reasonably and diligently, ensuring they obtain relevant information pertinent to the decisions they make. Contemporary courts often refer to soft law instruments to enhance their understanding of corporate governance matters. One such instrument commonly employed is the OECD Guidelines for Multinational Enterprises (OECD Guidelines), which offer recommendations to multinational enterprises on ethical business practices. These guidelines establish benchmarks for responsible business conduct, covering areas such as human rights, labor standards, and environmental protection. Notably, the OECD's definition of duty of care, utilized in cases like the Shell case, stipulates that board members should act with full awareness, in good faith, and with due diligence, thereby underscoring the importance of informed and conscientious decision-making by directors[8]. In a legal proceeding initiated in 2019, a Dutch court directed Shell directors to reduce emissions from its oil and gas operations by 45% by 2030. The claim asserted that Shell directors must take more aggressive measures to curb emissions than previously planned, citing it as crucial for the company's long-term interests, as well as for the well-being of its employees, shareholders, and the environment. Shell rebutted the allegations, maintaining that directors had fulfilled their legal obligations and consistently acted in the company's best interests. However, in May 2021, the Dutch court mandated Shell to enhance its strategy and plan for carbon emissions reduction. At the outset of 2023, directors of the oil giant Shell face personal litigation over their climate strategy, deemed inadequate by claimants to meet climate targets and endangering the company's viability amidst the global transition to clean energy. Environmental law group ClientEarth filed the lawsuit against 11 directors in the High Court of England, marking the world's first case seeking directorial accountability for inadequately preparing their company for the net-zero transition. Supported by prominent institutional investors, ClientEarth argues that Shell's slow response to climate change jeopardizes its future

[7] https://corpgov.law.harvard.edu/2022/11/29/understanding-the-role-of-esg-and-stakeholder-governance-within-the-framework-of-fiduciary-duties/

[8] OECD Corporate Governance – Climate Change and Corporate Governance, OECD Publishing 2022, Paris.

success and squanders investor resources on fossil fuel projects. Despite a London judge dismissing the lawsuit, citing a lack of clear evidence against Shell, the environmental law firm now has the opportunity to seek reconsideration through an oral hearing. This legal saga sheds new light on directors' duties to act in the company's best interests amidst evolving ESG dynamics. Another case that questioned board members responsibilities in EU is in front of German court. Peruvian farmer Saul Luciano Lliuya filed a lawsuit against German energy company RWE in Essen, where company is situated. Mr.Lliuya claims that due to the effects of climate change, the glacier under which the plaintiff lives is slowly but steadily melting. Since RWE's past CO_2 emissions have significantly contributed to worldwide global warming, Mr. Lliuya argues that the German company is partially responsible for the threat that the glacial runoff poses to his home. In order to protect his house from flooding, he seeks payment in the amount of €17.000 from RWE, a sum he says is equivalent to RWE's overall contribution to global climate change of 0.47%. Previously in *Milieudefensie v. Shell*, the Hague District Court found that CO_2 emissions themselves already constitute environmental damage and thus qualify as a "harmful event" and held that the place where the board of a corporation makes policy decisions can be considered as the place where an "event giving rise to the damage occurred". In the concrete case, these decisions themselves lead to an increase in the corporation's CO_2 emissions. This gives climate action plaintiffs the advantage of choosing whether to base their claim on the law of their home country, including the law of the country where the defendant's management board is located. Depending on the type of liability that the claim is based on, a plaintiff in a climate action lawsuit may have to show that the corporation had a duty of care towards him that obliged this corporation to reduce its CO_2 emissions. In *Milieudefensie v. Shell*, the court based Shell's liability under Dutch tort law on an "unwritten standard of care" and interpreted this standard by referring to the UN Guiding Principles on Business and Human Rights. In 2017, France was the first country in the world to adopt a law obligating large companies to carry out human rights and environmental due diligence. The law was adopted to ensure that companies are taking the measures needed to identify and prevent human rights and environmental violations in their supply chains. In accordance to these legal obligations, in 2022 there was a major lawsuit. This first climate litigation against a commercial bank is undoubtedly the first of many around the world. NGO's Friends of the Earth, Notre Affaire à Tous and Oxfam France, had given BNP Paribas formal notice to comply with its due diligence obligations on 26 October, sued BNP Paribas over its massive support to fossil fuels and for its substantial contribution to climate change. BNP Paribas is Europe's largest and fifth worldwide funder of fossil fuel expansion: the three organizations urge the bank to immediately stop financing this expansion and to adopt an oil and gas exit plan. This is the world's first climate lawsuit against a commercial bank and BNP Paribas will have to face its responsibility for the climate crisis before the court. BNP Paribas fails to comply with the French duty of vigilance law and still refuses to stop financing the expansion of fossil fuels, an urgent call from the scientific community. While deciding and arguing on Board's responsibilities, the court will rely on UN and OECD guidelines, which define specific due diligence measures regarding the activities the bank supports through its investments and financing efforts. All these cases are questioning breaching due diligence occurs whenever directors act negligently in their duties. The application of the business judgment rule provides directors with immunity from liability under the presumption that they made decisions based on accurate information, in good faith, and with a genuine belief that their actions served the company's best interests. A key distinction between the duty of care and the duty of loyalty lies in the severity of the implications: while negligence breaches the duty of care, disloyalty poses a more significant concern as it contradicts the principles of full disclosure and market corrections. The duty of loyalty demands that directors demonstrate integrity in their actions, particularly when conflicts of interest arise during transactions or while managing the company's affairs.

A director is deemed to have a conflict of interest if they, their associates, or family members have a financial stake in the transaction or the company's management. Additionally, a director is considered conflicted if they have business, financial, or familial ties with a party involved in the transaction or management, and if it's reasonable to expect that these connections might sway their decision-making in a manner adverse to the company's interests. Moreover, if a director possesses a significant financial interest in the transaction or management, and there's a likelihood that this interest could influence decisions unfavorably for the company, they are also deemed to be conflicted. According to the OECD Guidelines, the duty of loyalty obligates board members to act solely in the best interests of the company and its shareholders. Within the framework of ESG dynamics, the duty of good faith entails recognizing any affiliations or significant financial interests individuals may have in a transaction. Recognizing that neither company members nor the courts can feasibly oversee day-to-day operations comprehensively, legal statutes are enacted to uphold directors' allegiance to the company's interests. The duty of loyalty provides an avenue for directors to be excused from conflicts of interest if their actions are ratified by disinterested directors or company members, or if they can demonstrate that their decisions were fair and beneficial to the company.

4. CONCLUSION

In the context of ESG and sustainability, the duties of care, loyalty, and good faith take on heightened significance as companies navigate complex environmental, social, and governance challenges. The duty of care requires directors to exercise diligence and prudence in their decision-making processes, ensuring that environmental and social considerations are integrated into corporate strategies. This includes conducting thorough due diligence on sustainability risks and opportunities, and actively seeking ways to mitigate negative impacts and enhance positive contributions to society and the environment. Meanwhile, the duty of loyalty demands that directors prioritize the long-term interests of the company and its stakeholders, including employees, communities, and the environment, over short-term gains. Directors must disclose any conflicts of interest related to ESG issues and take proactive steps to address and mitigate them in a transparent and ethical manner. This may involve recusing themselves from decision-making processes where their personal interests conflict with those of the company or its stakeholders. Furthermore, the duty of good faith requires directors to act honestly, ethically, and in the best interests of the company and its stakeholders in all their dealings. This includes fostering a culture of integrity, accountability, and transparency within the organization, and actively promoting sustainable business practices throughout the company's operations and supply chain. The exact nature of director's duties in relationship to sustainability and ESG is still contested and uncertain and so is how they are to be exercised. The failure of director's to recognise the changing nature of director role and emerging duty of societal responsibility has also been attributed to learning anxiety[9], that comes from being afraid to try something new, fear that it will be too difficult, that we will look stupid in the attempt, or that we will have to part from old habits that have worked for us in the past. New ESG doctrine changes or knowledge and mind-set, forcing us to change description of board members responsibilities as well. In conclusion, in the context of ESG and sustainability, directors must uphold their duties of care, loyalty, and good faith by integrating environmental, social, and governance considerations into their decision-making processes, prioritizing the long-term interests of the company and its stakeholders, and acting honestly and ethically in all their dealings. By fulfilling these duties, directors can contribute to the creation of a more sustainable and responsible business environment, benefiting both the company and society as a whole.

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THE MAGNITUDE AND PERSISTENCE OF POVERTY AMONG CHILDREN AND FAMILIES WITH CHILDREN IN ROMANIA

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ABSTRACT

Poverty has always been a real concern and challenge, experiencing significant increases over time. Even if some important decreases were manifested especially in recent years, it was not fully absorbed by the processes of appropriate economic and social developments. Along with the increasing of poverty and its severe and extreme forms, the placement of some segments of the population in the sphere of these social risks has led to continuous vulnerabilities and challenges. Among the groups most affected by poverty and social exclusion on a national level, there were mainly children and families with dependent children who, even if their contingents have decreased compared to the previous decade, remain at high values for year 2022, despite national and local strategies aimed directly or indirectly at reducing poverty. For this reason, it is particularly important to constantly monitor the pulse of poverty, especially where it affects a large mass of the population. In this sense, the high incidence of poverty among children and young people in Romania is well known, since these segments have always been and are still currently the most affected by poverty and social exclusion risks. Considering both the magnitude and the persistence of poverty, which left their mark most significantly compared to other categories of the population (adults or elderly), the incidence among them exceeds the values recorded even at the total population level. This paper aims to create a concise picture of poverty among vulnerable children and families with children and how the magnitude and persistence of poverty have affected their quality of life. The dynamic analyses and the amplitude of juvenile poverty will show how much children are affected, aspects that constitute alarm signals regarding the strategic targets drawn on the horizon of 2027 / 2030 regarding poverty alleviation, the increase of social inclusion and the quality of life, but especially among children and families with dependent children.

Keywords: *Children and Families with Dependent Children, Magnitude and Persistence of Poverty, Poverty Risk and Incidences, Social Indicators in Dynamics*

1. INTRODUCTION

Poverty has always been a concern experiencing significant increases over time, but also some important decreases manifested especially in recent years, not being fully absorbed by the processes of appropriate economic and social developments. Along with the aggravation of poverty and its severe and extreme forms, the placement of some segments of the population in the sphere of these social risks has led to continuous vulnerabilities and challenges. Among the groups most affected by poverty / poverty and social exclusion on a national level, there were mainly children and families with dependent children who, even if their number has decreased compared to the previous decade, the values remain high for year 2022, despite national and local strategies aimed directly or indirectly at reducing poverty and increasing social inclusion. For this reason, it is particularly important to constantly monitor the pulse of poverty, especially where it affects a large mass of the population, as children and young people. In this sense, the highest incidence of poverty among children and young people in Romania is well known, as these segments have always been the most affected by this social risk, as both the magnitude and the persistence of poverty left the most significant mark, compared to other categories of the population (adults or elderly), and the incidences among them exceeding the values recorded

even at the level of the total population. This paper aims to highlight a concise picture of poverty among children and families with children vulnerable to poverty and how the magnitude and persistence of poverty have affected their quality of life. The dynamic analyses of the amplitude of juvenile poverty will show how much contingents are affected, aspects that constitute alarm signals regarding the strategic targets drawn on the horizon of 2027 or 2030 regarding the reduction of poverty, the increase of social inclusion and the quality of life of the population, but especially among children and families with children. The reduction of poverty and social inequalities has always been an important concern of analysts and decision-makers, the reason for this concern not being one that derives from an inclination towards charity, but from their economic, social, and political implications. Experience has shown that poverty is a trap that perpetuates itself and limits individuals' access to education and a well-paid job, the poor often remaining on the margins of society. Moreover, the lack of education and good professional training means, in economic terms, low productivity level, low ability to adapt to new and rapidly changing technologies, which could mean for many low incomes from employment or, worse, even the situation on the border with unemployment, which leads to poverty. At the same time, this means more efforts regarding social assistance and protection support measures, especially among these vulnerable categories of the population. On the other hand, poverty and significant inequalities between individuals represent a permanent source of social tensions and political instability. In turn, such events have an unfavourable impact on the business environment and on the climate of confidence in the efforts to promote economic growth policies. Consequently, poverty and social inequality have emerged as particularly concerning issues for public policies over time. It can be stated with certainty that there is a need for efficient and effective policies around the area of population incomes, but also to reduce and combat poverty and its severe and extreme forms.

2. A ROADMAP TO REDUCING CHILD POVERTY

Poverty left and, unfortunately, still leaves a strong economic and social footprint on vulnerable categories of the population, including children, despite many alarm signals, but also many sustained efforts undertaken at the international and national level, by some appropriate strategies. Numerous organizations are continuously concerned with supporting children and families with dependent children, carrying out studies and analyses, or many projects that start from the identification of the vulnerabilities of these target groups and proposing solutions to overcome these obstacles. In this sense, the efforts of Save the Children Organization, UNICEF, and World Bank, etc., through projects and research, and a lot of programs they run in the educational, health, social protection, promotion of children's rights, etc., are eloquent. Save the Children Organization is the largest independent organization in the world that promotes children's rights, which includes 30 members and runs programs in over 120 countries, including Romania. On a national level, Save the Children Romania Organization was a trailblazer in terms of ensuring the rights of the most vulnerable children. Thus, carrying out numerous projects throughout the more than 30 years of its existence at the national level, the organization established the first services to prevent child abandonment, to support abandoned children with HIV/AIDS in the family system, to improve the quality of life in children's homes, to protect children living on the street, to support children who are victims of sexual abuse or human trafficking, and so on. According to the latest 2023 Report of Save the Children Organization, over 200,000 more children were driven to the brink of poverty in EU countries in 2021, bringing the total number of children at risk of poverty to over 19.6 million – or one in four – according to a new data. So, the Report shows that 1 in 4 children from the EU states is at risk of poverty in 2021, and Romania has the highest poverty rate among the 27 member countries of the EU panel.

A recent Report carried out by UNICEF in December 2023 shows that more than one in 5 children lives in poverty in 40 of the richest countries in the world, and Romania records the highest incidence compared to the panel of countries analysed, both in terms of monetary poverty (29% rates of poverty among children / average 2019-2021), as well as non-monetary poverty, respectively those in severe material and social deprivation (30.8% in 2022), but also high material deprivation among children (42.5% in 2021), etc. In addition, UNICEF states that children are the most affected by the stagnation of progress recorded worldwide in terms of reducing extreme poverty, and highlights the fact that worldwide, 333 million children survive on less than $2.15 a day, as a new analysis shows that the COVID-19 pandemic has resulted in the loss of three years of progress (UNICEF, July 2023). At the same time, current research carried out by the International Labor Organization (ILO), Save the Children and UNICEF (2024) shows that 1.4 billion children between the ages of 0 and 15 worldwide do not benefit from basic social protection, which makes them vulnerable to disease, poor nutrition, and poverty, according to the latest data in the joint Report carried out recently (ILO, Save the Children and UNICEF, 2024). According to the Report, the latest data shows that 829 million children worldwide live in monetary poverty, i.e. in households with a per capita income of less than US$3.65 per day, and progress in reducing child poverty have largely stagnated. The report states that less than a tenth of children living in low-income countries receive allowances, making them vulnerable to disease, lack of education, poor nutrition, poverty, and inequality, etc. These vulnerable children are deprived of the basic resources and services they need to escape poverty and are therefore exposed to the long-term effects of hunger, malnutrition, and unfulfilled potential. The three organizations (Save the Children, ILO, and UNICEF) call on governments to ensure that all children are protected through social protection mechanisms, including universal child benefits. To support efforts to monitor and reduce gaps in child benefit coverage, they have developed an online platform / Global Child Benefits Tracker, to monitor children's access to social benefits, but also important steps to reduce vulnerabilities among children (https://www.childbenefittracker.org/). On the other hand, not only these international bodies signal the seriousness of the problem regarding poverty among children, but also other strategic documents, respectively the National Strategy for the protection and promotion of children's rights 2023-2027, the National Strategy for social inclusion and poverty reduction 2022-2027, but also other national and local strategies aimed at common targets on poverty reduction. The Strategy for the protection and promotion of children's rights highlights that also at the European level, poverty or social exclusion is a priority problem, since that approximately one in 5 children are affected by this risk. In Romania the level is much higher, more than one in 3 children being affected by poverty or social exclusion, respectively 1.3 million children. In 2020, there was a slight increase compared to the previous year, by 0.5 pp., to a level of 36.3% of the national poverty rate, compared to 23.7 in the EU27. Poverty rate or social exclusion among children is significantly higher than adults, of 29% in the same year. In addition, 1.1 million children were in poverty in 2019, a still unacceptably high number, despite the achievement of the target set by the 2014-2020 Strategy, which aimed a national reduction till 2020 by 250 thousand of the number of children in poverty, and according to the new Strategy 2023-2027, which targets the year 2027, a reduction of 400 thousand children affected by poverty. Not only the national strategic documents highlight the issues regarding poverty alleviation among children and families with children in Romania, in the specialized literature there are a number of studies and researches that start from highlighting the picture of these incidences that affect the youngest segments of population, these also focusing on other aspects such as the identification of the main determinants, the causes and factors that generate poverty and inequalities, the types of vulnerable families impacted by poverty, a profile of the segments facing poverty and social exclusion, up to outlining some directions of action to reduce these risks and to increase the quality of life among them.

Thus, starting from scientific objectives regarding the knowledge of the poverty picture, main indicators, the difficult situations of vulnerable families, such as single-parent families, with two or more children, those in rural areas or in areas where poverty reaches the higher values, etc. there are some examples of the population living in poverty or at risk of falling into poverty, in need of support and social protection. From these aspects, the analyses and numerous studies and researches carried out on various types of families start, for example single-parent families with two or more children, families that have a minimum guaranteed income and child allowances, families of two adults with two dependent children that have only one average net salary and allowances for the two children, families where one of the parents has become unemployed, etc. (Mihăilescu, 2017). The experts' concerns were focused on studying these vulnerable groups and the composition of these households, which presented high incidences of poverty going as far as studying from a statistical perspective the multidimensional aspects of poverty and social exclusion in the context of social policies in Romania (Zamfir, 2021). It is obvious that prevention is particularly important in reducing the impact of poverty risks, and studies on this level of research have also been initiated to reduce vulnerabilities. In this sense, some authors appreciate that marginalized people are facing socio-economic challenges that are difficult to overcome without early intervention and without specialized support: lack of jobs, poor access to health services, lack of income, increased cost of living, increased indirect costs related to education and school attendance, low school attendance on the part of children and young people (Onet, 2020). These determinants are particularly important, and prevention of risk situations for some vulnerable families (low-income families, single-parent families or those with 2 or more children) or socially marginalized people can be achieved through concrete measures of financial / material support, specific and adapted to the individual needs; information and advisory services to facilitate access to education, employment, health, housing; campaigns to promote positive models, community principles and values, especially on issues related to discrimination of any kind (Onet, 2020). Acute poverty is also registered in the Romanian countryside, where the incidence is much higher than the national level, and children from rural areas are more exposed to the risk of poverty and social exclusion. The National Strategy for the protection and promotion of children's rights estimates that approximately half of the children in Romania, respectively 47.0%, live in rural areas, explicitly mentioning the increased risk of social exclusion and poverty for children from rural areas, from isolated or disadvantaged areas. The strategy also mentions that, unfortunately, the share of rural children who go to bed hungry at night is 10% (7% - sometimes, 3% - always), and the situation of rural children has not seen significant progress in the last years. And the National Strategy on social inclusion and poverty reduction for the period 2022-2027 shows that three quarters of social aid beneficiaries are in counties / regions with a high level of poverty and social exclusion, with a low level of economic development, over 80% of these being from the countryside. Analysing the dynamics over a larger time gap, we conclude that in recent years, poverty has become quite important, affecting a large part of the population, which also means driving a sustained effort regarding specific forms of social assistance. More and more strong signals are being drawn to reduce poverty and social exclusion among vulnerable groups, especially in rural areas, where the decline in poverty is much more pronounced. This means knowing and continuously analysing these rural contingencies facing poverty, finding solutions to improve social assistance, social inclusion and employment growth, actions that respond more pronounced in the current economic and social challenges, in line with the dynamics of the social dimensions (Stroe and Lincaru, 2022). All these factors have intensified, multiplied, and potentiated their effects over time, constituting the main reasons for the family to emigrate, either temporarily or permanently, to ensure a survival or decent living. Thus, for some families, in the absence of support and some prospects, emigration became a key to solving poverty and with the hope of increasing the quality of life.

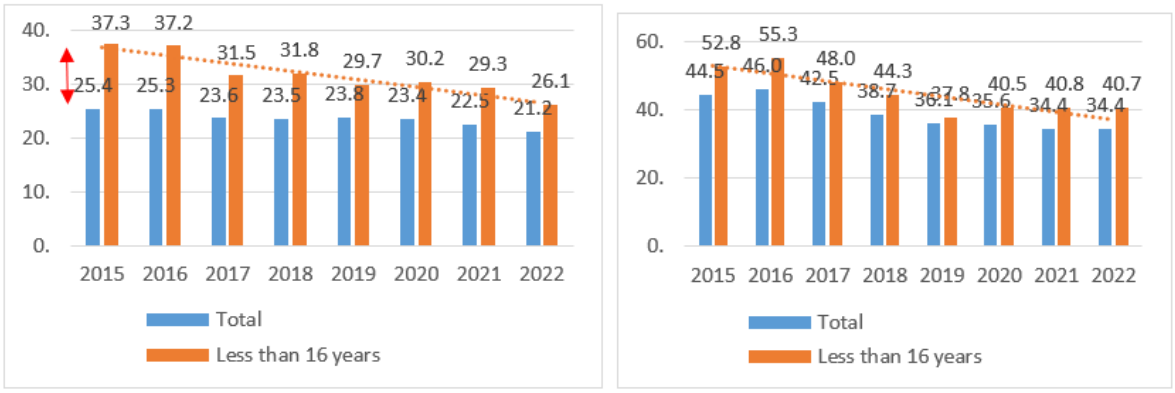
The studies and research carried out in the sphere of transnational families, in which at least one parent is away working abroad, have shown that even in these conditions, emigration also entailed some disadvantages, such as reduced emotional support, accompanied by increased school dropout, which led to a dysfunction of the educational, but also of the emotional function of the children left at home by their parents (Matei et all., 2022). The repercussions of all these vulnerabilities leave deep traces on the child, affecting his good development, but also being able to threaten his future and that of his family. There are numerous studies that demonstrate the importance of the first years of living, from the perspective of the fact that investments in development, in this early period of life, have repercussions on the way in which the person's cognitive and psychosocial skills are structured, mediating, in fact, his place and performances future on the labour market. Underinvestment in development at an early age is associated with undesirable effects that are difficult to recover later, and the associated costs are significant. Studies in this specific field have revealed that many factors are "risk factors" for inadequate child and adolescent development, both from a cognitive perspective, considered here in terms of IQ, and from an emotional and social skills perspective. This will later be associated with lower work income as well as a lower quality of life in adulthood. Children living in poverty are more likely to find themselves in situations where they face high levels of stress (Crockett and Haushofer, 2014, cited in World Bank Report, 2015), as well as insufficient cognitive and socio- emotional in the first years of life. The link between early childhood exposure to toxic stress and deficits in language and cognitive acquisitions as well as in the formation of social skills has been demonstrated (Shonkoff et. al., 2012). Unfortunately, research shows that children living in poverty experience greater exposure to more severe environmental stressors than children of higher socio-economic status (Crockett and Haushofer, 2014, cited in the World Bank Report, 2015) and with insufficient cognitive and socio-emotional stimulation in the first years of life. The link between early childhood exposure to toxic stress and deficits in language and cognitive acquisitions as well as in the formation of social skills has been demonstrated (Shonkoff et. al., 2012). Considering these aspects, the main target of the material is an analysis of the picture of poverty and social exclusion among children and families with dependent children, being particularly important a continuous monitoring of these risks, to identify, in addition to the incidence, the scope, depth and their dynamics, including poverty gaps and disparities, nationally and internationally, in dynamics and in different structures of the multidimensionality of poverty. A dynamic analysis of these contingents leads to the profiling of the targeted segments, namely those facing poverty and the main characteristics, the causal dimension, but also the foreshadowing of some directions of action that lead to an increase in the quality of life among these vulnerable groups, especially children.

3. PICTURE OF SOME SOCIAL INDICATORS CONCERNING POVERTY IN FIGURES

Several indicators show a high amplitude of poverty among children and families with dependent children in Romania, putting under the signs of vulnerability a significant number of people and, even more, children, who can be found under the spectre of vulnerabilities and risks of poverty and social exclusion (material and multidimensional poverty) for a longer period. The most used indicators referring to the main aspects regarding monetary poverty will be analysed in the following.

3.1. The risk of poverty and social exclusion, total population and children

In the 2015-2022 period, at the national level, Eurostat data show a particularly high incidence of the two social risks associated with poverty and poverty and social exclusion, both for the total population and especially among children and families with dependent children.



At risk of poverty rate [ilc_li02]

At risk of poverty and social exclusion rate [ilc_peps01n] (break in time series in 2020 / UK Brexit)

Figure 1: The risk of poverty rate and the risk of poverty and social exclusion rate among total population and children (less than 16 years), 2015-2022 (%) (Source: Eurostat, [ilc_li02 and ilc_peps01n], last update 20.02.2024)

During 2015-2022, the poverty rate was between 21.2-25.4% (total population), while children under 16 years of age permanently recorded a more acute poverty level, between 26.1-37.3%. Conversely, the incidence of poverty and social exclusion is much more pronounced, the values are much higher, so that the rates were between 34.4-44.5% for total population, and children under 16 years of age permanently recorded a much more acute risk, between 40.7-52.8% (1 in 2-3 children). Over time, the differences flattened out, so that if at the beginning of the period there was a gap of almost 12 pp., and it was reduced to 5% in the last year. However, regarding both social risks, a decreasing trend of the poverty rates can be noted in recent years, both at the level of the total population and children, with important rates of decrease towards the end of the analysis period compared to the maximum reached during 2015-2018. But, nevertheless, in 2022, incidences of over 34% regarding poverty and social exclusion for total population remain at high values (6525 thousand people facing this risk), children under 16 facing much higher the risks of poverty, over 40% (over 1.3 million children). Compared to the EU average, the two incidences of poverty / poverty and social exclusion are particularly high, regardless of whether we refer to the total population or children, and Romania has the highest rates compared to EU27 panel. Among the total population, this gap between Romania and the EU average is significant, varying in the period 2015-2022 between 5-8 pp., being much more pronounced regarding the poverty rate and social exclusion, where the differences vary between 13-22 pp. Among children under 16 years old, these discrepancies between the values recorded in Romania compared to the EU average are much more pronounced, so that regarding the poverty rate they vary between 7-16 pp., while regarding poverty and social exclusion, the rates are between 15-25.5 pp. It is true that these differences are decreasing over time, but remain at high values at the national level even in 2022. The trends are therefore decreasing for both social risks, regardless of whether we refer to the total population, but especially to children, against the background of European and national strategies regarding the reduction of poverty risks, in accordance with the targets assumed for the 2027 or 2030 horizon. Thus, the magnitude and persistence of poverty / poverty and social exclusion continue to represent major challenges both for vulnerable families and for decision-makers, as the incidences are significant both for the total population and among children. Permanently, children are the most exposed to the risk of poverty / poverty and social exclusion, compared to all other age groups, but also to the total population. There are high incidences in 2022: 21.2% of the total population (over 4 million people) are at risk of poverty, while poverty among children under 16 is much more significant (26.1%, i.e. almost 840 thousand children).

In the same time, 34.4% of the total population (over 6.5 million people) are affected by poverty and social exclusion, children being again the most exposed to this risk (40.7%, over 1.3 million children).

3.2. The risk of poverty by household type

The composition of different types of households greatly influences the incidence of poverty, and this is even more so when dependent children are also present in the household. Considering the presence of children, quite large discrepancies can be observed between the poverty rates, but also increasingly significant amounts between the different types of households.

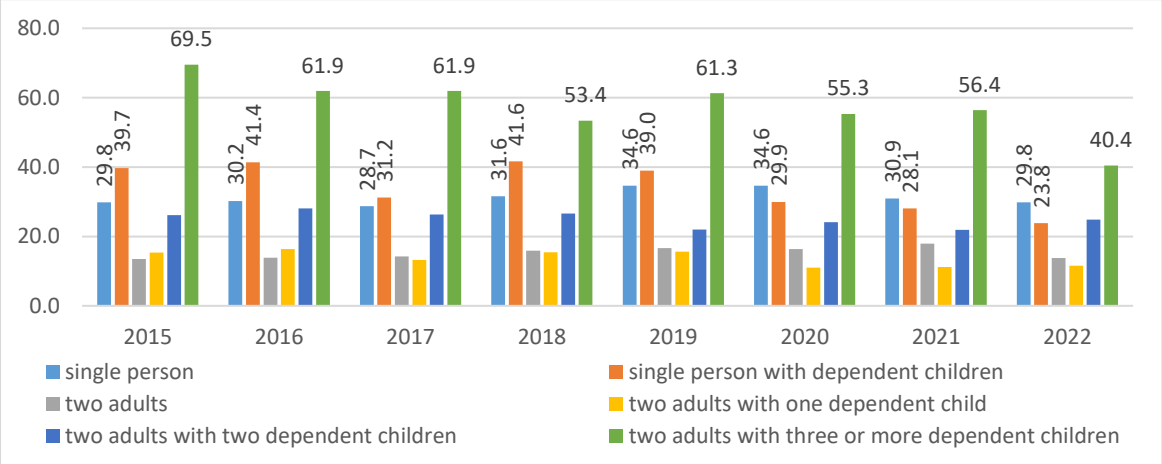


Figure 2: The risk of poverty rate by household type, 2015-2022 (%)
(Source: Eurostat, [ilc_li03, last update 20.02.2024)

Analysing the dynamics of poverty, it is observed that this risk affecting the single person who cares for a dependent child varies in the period 2015-2022 around the threshold of 24-40% - which means a high incidence. The presence of children among single-parent households differentiates poverty quite a lot, there is a gap that varies between 3-11 percentage points (4.4 pp. in 2019), the almost permanent presence of children in single-parent households leading to a much higher poverty rate. On the contrary, in 2020 there is a significant decrease in the poverty rate among single people with dependent children, by almost 10 pp., this incidence falling below 30%, even below 24% in 2022 (from highs of 41-42%), which represents a minimum of the analysed period. This remarkable minimum in the poverty rate for single-parent families with dependent children, as well as these decreases in poverty rates among households with children, could be due to the increases in state child benefit that have taken place since 2020 (the increase from 1 Aug 2020), but also the subsequent increases, especially from the years 2021 and 2022 (increases from January 1), but also against the background of the decrease in the incidence of poverty at the total level, a fact that led to the increase in household incomes and, implicitly, to the poverty alleviation, even against the backdrop of rising inflation (especially in the conditions of a 2020 pandemic year full of economic and social challenges). And further, it is estimated that poverty among families with children would decrease, against the background of the increase in the state allowance for children through the annual indexation of this amount with the average rate of inflation, starting from 2023. To this picture of single people raising and caring for dependent children, if one more adult is added, the poverty of the household fades further, because another income is added to the material situation of the household, generally from work. Comparing poverty by household type, it is observed that as the number of adult persons in the household increases, poverty decreases, which means that the presence of more income (from work) within households leads to poverty reduction.

Comparatively, in 2022, in families without children, poverty among a single person is 29.8%, while for two adults, poverty reaches 13.8%, which therefore means a reduction important, with 16 pp. Conversely, as households include dependent children, income stability becomes unbalanced and poverty is much more visible. Thus, at the level of 2022, within households with two adults, poverty presents the following incidences depending on the number of dependent children: households with one child present a poverty rate of 11.6%; households with two children - 24.8%; while for households with three or more dependent children, the incidence of poverty increases significantly and almost doubles, reaching 40.4%. However, it should be noted that among households with three or more dependent children, poverty experienced significant reductions, from a high of 70% (recorded in 2015) to 40% (reached in 2022), against the background policies targeted to the families with children. On the other hand, the following trend can be observed, i.e. the higher the number of dependent children, the higher the poverty among these households. Thus, large households with several dependent children are found in large numbers under the spectrum of poverty, and the incidences are particularly significant. This is not a temporary situation, but a permanent one among many households that face high poverty thresholds, over 40%, sometimes even over 70% (year 2014). Thus, the incidence of poverty is not evenly distributed among the types of households, differing a lot depending on the number of adults and dependent children, the presence of several dependent children in the household generating more and more significant patterns of poverty, as their number increases.

3.3. Persistent at-risk of poverty rate

Romania also has a high prevalence of persistent poverty and among the total population, but also among children under 18, who are facing prolonged periods or repeated episodes of poverty, in the current year and in at least two years from 3 previous years / for the current year and at least 2 out of the preceding 3 years.Permanently persistent poverty has constituted a real challenge, as both the duration and the amplitude are significant, and these aspects are reflected by significant incidences throughout the entire 2015-2022 period.

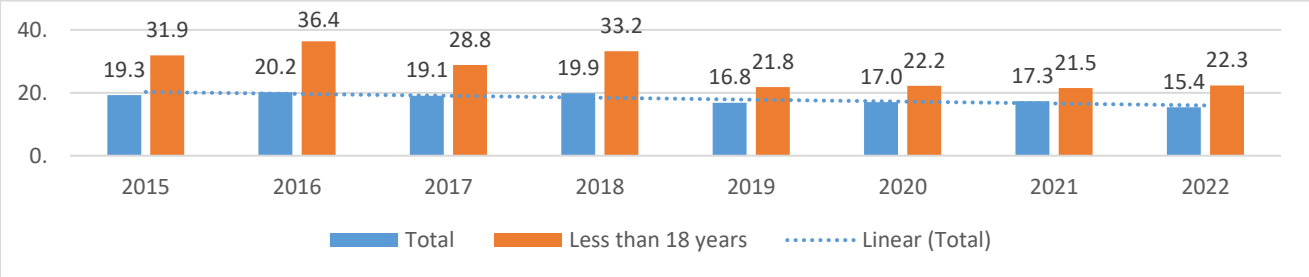


Figure 3: Persistent at-risk-of poverty rate, 2015-2022 (%)
(Source: Eurostat, [tessi022], last update 01.03.2024)

Values of 20% of persistent poverty among children in the period 2015-2018 are eloquent in this sense, when respectively one in 5 children is in persistent poverty. It is true that these incidences have reduced, reaching 15% in 2022, but they remain at important high levels. Persistent poverty can be associated with lifelong negative consequences for children, exacerbating the disadvantages that poverty already creates.

3.4. The risk of poverty by urbanisation degree

Permanent poverty in the Romanian countryside has constituted a real challenge, as the persistence and amplitude reach significant values, and these aspects are reflected by significant incidences throughout the period 2015-2022.

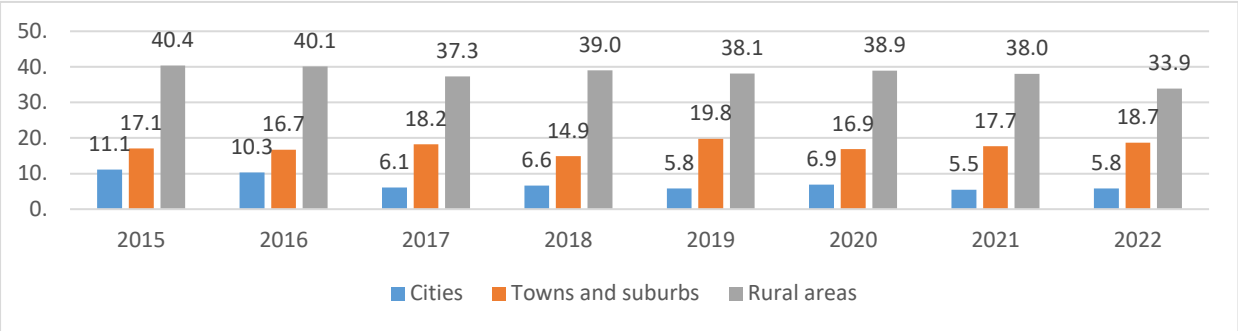


Figure 4: The risk of poverty by urbanisation degree, 2015-2022 (%)
(Source: Eurostat, [ilc_li43], last update 20.02.2024)

The poverty rate differs significantly depending on the area of residence, and the gap between urban and rural remains a significant one, oscillating between 28-32 pp. This gap is significant (with a maximum of 32.5 pp. in 2021 and a minimum of 28.1 pp. in 2022), remains at very high values, and highlights a particularly pronounced rural poverty, when more than one in 2.5-3 people from the rural area face poverty. These national differences in the incidence of poverty in rural versus urban areas, of 28-32 pp., are much higher than those recorded at the level of the European average, where the value range is 1-4 pp., against the background of a poverty rate in the rural area of 17-20%, twice lower than that recorded nationally (34-40%). Starting from 2017, in the big cities, poverty varies between 5.5-7% (with almost 6% in 2022, i.e. over 300 thousand people), while a much higher number of poor people are in town and suburbs, 17-20% (with almost 19% in 2022, respectively almost 1 million people). Between 3-3.5 million people in rural areas are in poverty in the period 2015-2021, which means particularly high rates of 37-40%. Rural poverty is close to the 34% threshold in the last year of analysis (2022), which affects over 2.7 million people. Thus, in the rural area, most people face poverty, and the incidence is very high, which remains an alarm signal, as it persists in scale, but also in dynamics, and, more serious is the fact that it affects many households with children. Therefore, it can be concluded that very high rates of poverty are especially in rural areas, where almost 40% of the population (over 3.25 million people) face poverty. Even if there were fewer people from rural areas in poverty, still 34% (over 2.7 million people in 2022) represents an alarm signal, as the magnitude of poverty in rural areas is still very high. At the same time, these high risks remain dynamic, a fact that makes the Romanian countryside vulnerable to the risk of poverty, a trend easily observed throughout the analysed period 2015-2022. Thus, presenting high incidences over time, rural poverty must be considered especially, as it affects many people. Moreover, statistics and realities show not only that the Romanian countryside is continuously impoverished, but also that certain regions are permanently faced with poverty. Thus, some regions have always recorded high rates of poverty, and these persistences were permanently maintained in dynamics and affected a significant number of people.

3.5. The risk of poverty by NUTS regions

The poverty risk rate differs substantially between the 8 nationally development regions, and these distributions are preserved over time, with visible boundaries and inequalities throughout the analysed period. Statistical data show that the North-East region was the most vulnerable to poverty compared to all the other 7 development regions, this risk being 35.5% in 2021 (41% in 2019), far above the national average (by 13 pp.). At the same time, the persistence of the risk of poverty is continuously maintained for this region, positioning it continuously in vulnerability. In addition to this region, but up to 10 pp., there are also 2 other regions that face and have always faced poverty, namely the South-West Oltenia region and the South-East region.

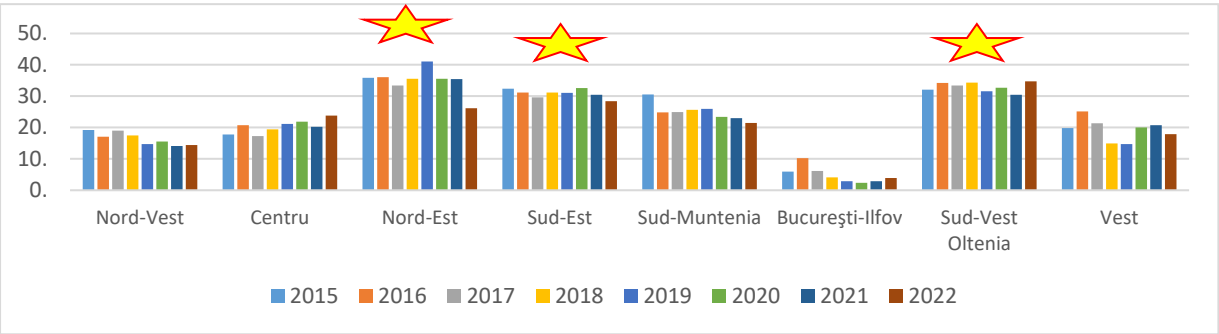


Figure 5: The risk of poverty by NUTS regions, 2015-2022 (%)
(Source: Eurostat, [ilc_li41], last update 20.02.2024)

Together, these 3 regions remain at the top of the poverty list for almost a decade, with high, deep, and persistent incidences of poverty, which affects a large part of the population, over 30%, i.e. one in three inhabitants of these three regions facing poverty not only in the dynamics analysed, but permanently. Looking at the macro-region level, it is observed that macroregion 2 (composed of the North-East region and the South-East region) is the poorest area of the country, this not being just a conjunctural fact, but of permanence and high amplitude of poverty. Only in 2022 is a revival of poverty observed in the North-East region (26.2%), against the background of the sharp increase in poverty in the South-West Oltenia region, the latter reaching the highest incidence of poverty at the level of 2022, by 34.7%.

3.6. Definitive emigration by NUTS 1 macroregions / macroregion 2

All these persistences and magnitudes of poverty, regardless of whether we refer to rural or regional poverty, to poverty among large families that have one or more dependent children in care, but also the lack of perspective for a better standard of living, alongside by a multitude of other determining factors, there were real reasons for many people to go abroad temporarily or permanently, to ensure their survival or a decent living. In what follows, we will refer to permanent emigrants who chose to give up their domicile in Romania and establish their domicile on the territory of another country.

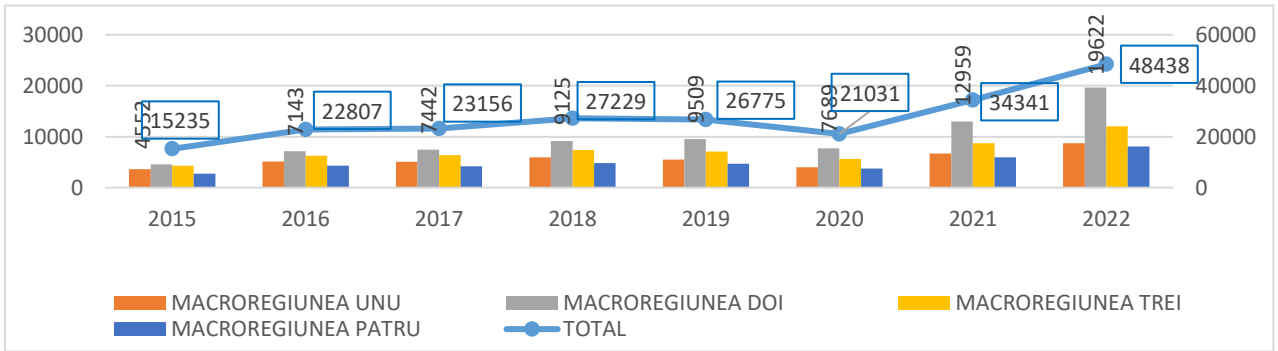


Figure 6: Number of definitive emigrants, by NUTS 1 Macroregions, 2015-2022
(Source: National Institute of Statistics, Tempo online [POP309A])

The poorest area of the country was macroregion 2, which permanently registered the largest number of the poor population, the incidence being between 27-37% over the years (27% in 2022). Certainly, the degree and level of poverty, by magnitude and persistence, but also many other factors, coupled with the lack of perspective, were the main reasons to emigrate. Thus, the number of these people who permanently emigrated was on the rise overall, with few exceptions (2020, when the Covid pandemic was also felt in this plan), but especially at the level of the poorest macroregion.

Thus, within this macroregion 2, the largest number of permanent emigrations was recorded compared to those who left their homes in the other three macroregions, increasing significantly in the last 2 years, from 15 thousand people in 2015 to almost 20 thousand in 2022. This macroregion 2 includes the North-East and South-East regions, which are the poorest regions compared to the other 6 regions of the country. Definitive emigration recorded an almost continuously increasing trend, with substantial rhythms starting from 2015, and this aspect was recorded both at the national level and in all regions and macroregions of the country, in some cases even doubling the incidence of cases of definitive emigration.

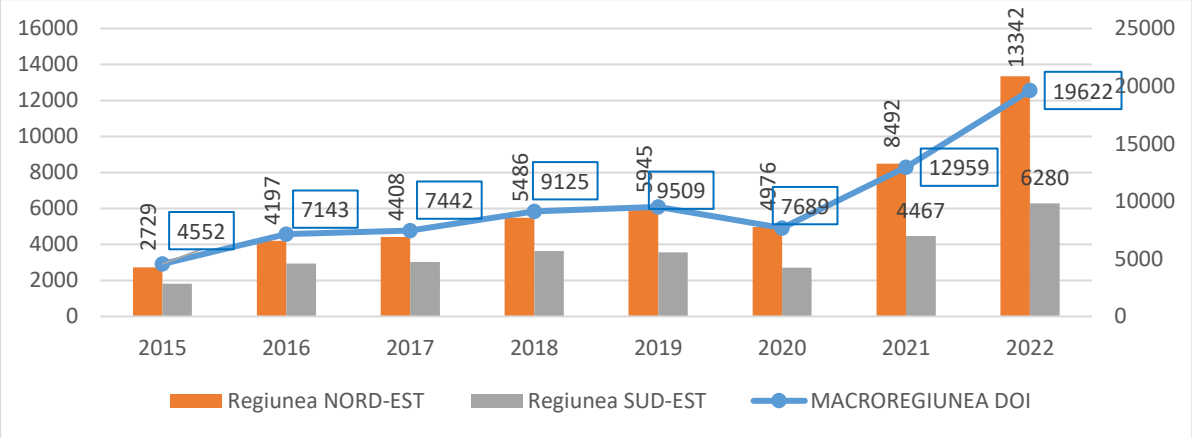


Figure 7: Number of definitive emigrants of Macroregion 2, 2015-2022 (total persons)
(Source: National Institute of Statistics, Tempo online [POP309A])

With a total of almost 7.7 thousand people permanently emigrated in 2020 from macroregion 2, this number increases significantly three years later, reaching over 19.6 thousand people, i.e. 2.5 times more permanent emigrants. Permanently, most people who permanently left the country were from the North-East region, far ahead of the departures from the South-East region, mainly because of the magnitude of poverty that governs this region of the country and the lack of perspective in terms of a living survival or decent. Perhaps the Covid 19 pandemic had a significant contribution to this economic decline, which could accentuate the increase in the number of people from this region who chose to permanently change their residence to another country.

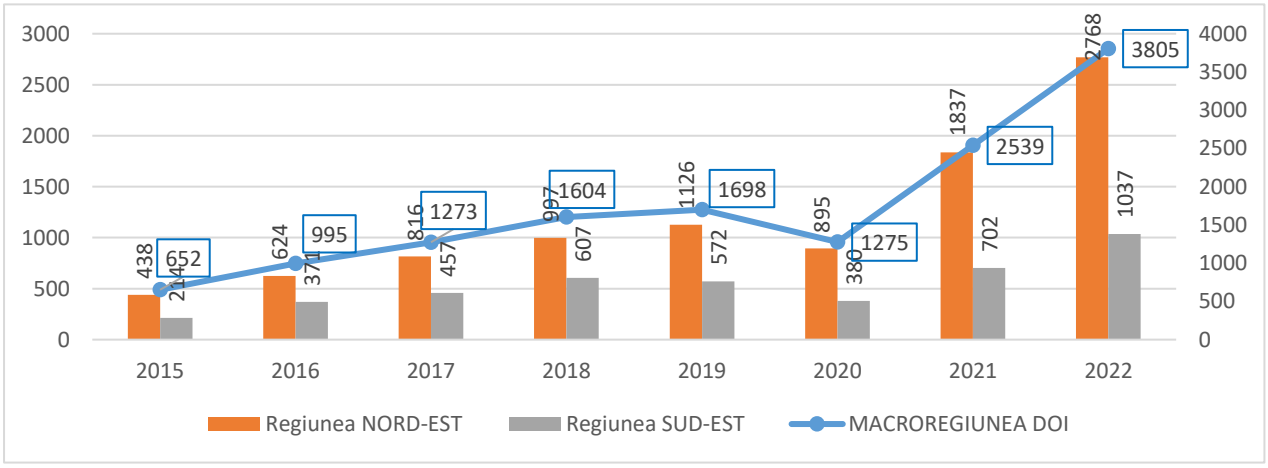


Figure 8: Number of definitive emigrant children under 14 years from Macroregion 2, 2015-2022
(Source: National Institute of Statistics, Tempo online [POP309B]

Of the total permanent emigrants from macroregion 2 in 2022 (over 19.6 thousand people), children aged between 0-14 represent almost 20% (19.4%, over 3.8 thousand children as permanent emigrants). If the subgroup of adolescents (15-19 years) is added to this age group 0-14 years, the definitive juvenile emigration would approach 3 thousand (2.8 thousand) in 2019, which would represent a third of the people who permanently left macroregion 2. As it was also found among the total emigrant population from this macroregion, most departures of children under 14 years old are from the north of macroregion 2 (over 70%), this surpassing the south by more than 2.6 times, a sign that poverty and shortages accumulated much more significantly, causing that important mass of the population to settle permanently in another country (over 2.7 thousand children from the North-East region and over 1 thousand children from the South-East region in 2019). Regarding the permanent departure of children under the age of 14 from the locations related to macroregion 2, starting from 2015, year by year, their number was increasing (in 2015 there were 652 children who permanently emigrated, and after 5 years, their number reached 3805, so more than 5.8 times higher), trend and rhythm that were mainly found in the North-East region and which conferred the general trend at the level of the macroregion (and in the south of the macroregion, the number of children left it was definitely big, twice as important in 2022 compared to 2019). Along with permanent emigration, and temporary emigration (which has as a time limit the departure abroad for a period of at least 12 months), represents another option for those who are pushed to such steps to change their domicile, leaving the country for various social - economic reasons. Being easier than permanent emigration, temporary emigration was even 9-15 times higher than that involving permanent settlement in another country. Thus, considering both permanent and temporary emigration, it can be concluded that their number was higher year by year, both at the level of the total population, including that of macroregion 2, but also among children under 14 who have crossed the country's borders for a period longer than 12 months or even permanently. These are some happy cases, considering also the emigration of children, since they are even more sensitive situations, when children remain in the country, while one parent or even both try a new, more favourable economic and social chance, by crossing the country's borders, for working abroad. In this sense, administrative data of the National Authority for the Rights of Persons with Disabilities, Children and Adoption show that at the end of 2020, a total of 75,136 children whose parents went to work abroad and a total of 57,391 families who went to work were registered abroad. Among these families, 9,844 had both parents working abroad, while 39,874 families had one parent gone and 7,673 were families with a single supporting parent going to work abroad. At the same time, based on statistics, it is shown that 1 in 3 children with parents working abroad face a lack of parental care, due to the departure of either the sole supporting parent or both adults, deepening the difficulties of children separated from their parents. Thus, 18% of the children have both parents gone to work abroad, 14% have a single parent gone abroad, while 68% have only one parent gone (The "Protection of children with parents working abroad - the importance of parental education and support services" Conference, organized by Save the Children Organization, in partnership with the Ministry of Labor and Social Protection, May, 2021). At the same time, during this Conference, based on the investigation carried out by Save the Children Organization, it was revealed that 4% of children have parents who have gone to work abroad for less than 1 year, 32% of children have parents away for 1-3 years, 37% for a period between 4-6 years, 18% for 7-9 years and 9% for over 10 years, so 64% of the children have their parents away for more than 4 years. Significant percentages of those who went abroad were also recorded in previous years, so that an "Experimental Study on the Economic and Social Effects of Migration on Children Remaining at Home", carried out by the National Institute of Statistics in 2018, shows that in 2017 many people, respectively 60.3%, had left for a period longer than 12 months, the rest of the people having left for a shorter period (6-12 months).

At the same time, the experimental study carried out by the NIS also mentions in 2017 a distribution of children left at home, by age group, so that 20.4% were children under 5 years old, 31.5% were between 6-10 years old, 29.7% were between 11-14 years old and 18.4% between 15-17 years old. Therefore, a majority percentage was owned by young children (up to 10 years old) who stayed at home after their parents left for work abroad. In addition, along with the inherent difficulties created because of this physical and mental "abandonment", the study shows that "more than 70% of the children left at home lived in households where there was no wage earner". Consequently, these children are exposed to numerous risks, not only those related to the lack of parents, especially for young children, but also those related to precariousness or lack of income, which in turn lead to several other vulnerabilities related to continuation of education and prevention of school dropout, precariousness or even lack of social services, medical services, etc. Thus, all these related aspects regarding the poverty of children and families with children, as well as the need for one or both parents workomg abroad, lead to the creation of a picture that sums up numerous economic, social, emotional, behavioural difficulties, with a negative impact on the family, but also, perhaps more acutely, that vulnerable children affected by the economic emigration of their parents feel. And this picture of some people and even communities that are exposed to some economic and social vulnerabilities around which poverty gravitates, simultaneously and with an accumulation of lacks, is a common one, whether it refers to small-urban or rural communities, where vulnerabilities and social risks are concentrated. The example of macroregion 2 is an eloquent one in this sense, by concentrating the biggest "pockets" of poverty, these clusters also accumulating several other vulnerabilities such as emigration, especially for work and for a better living. In this sense, the difficulties of separating children from their parents because of adults going to work abroad deepen, being correlated, but also complementary to the extent and magnitude of poverty, generating in turn several other insecurities and social risks. Consequently, it is a priority to focus public policies to mitigate the vulnerabilities due to poverty and family segregation among these segments of the population, especially among children, not only from the perspective of psychological, emotional, and behavioural support, but also educational counselling, more jobs for their parents, more access to social, medical, and legal services, etc., as real support intended for a harmonious growth and development, but also for increasing the quality of life.

4. CONCLUSION

Therefore, poverty among children and families with children has always had the highest incidences at the national level, so that the greatest risk of poverty among children was approx. 30-40%, respectively 1 in 2.5-3 children facing this risk. Even if a downward trend is observed in recent years, poverty remains high among children, and the goal of reducing poverty and increasing the quality of life of children / families with children remains a challenge for social policies and national strategies. These high incidences continue to put major pressure on the vulnerable contingents, but also on the specific budgets allocated and on the necessary reforms for social policies aimed at reducing poverty and increasing the quality of life among children / families with children. Knowing the profile of these vulnerable contingents represents a particularly important first step for outlining well-directed action directions for these vulnerable categories of the population. In addition, these social risks must always be assessed and monitored and the pulse of poverty must always be taken, to act more targeted, faster, and more efficiently and effectively, through specific and appropriate measures, especially on these young segments who have always faced with important magnitudes of poverty. The fact that 1 out of 3 children still face poverty at the national level remains a current concern, but also a perspective at the national level, as ways are still needed to reduce poverty among children / families with children and ways to increase their quality of life.

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THE ATTITUDE OF THE POPULATION OF ECONOMIC SUSTAINABLE TOURISM DEVELOPMENT TOWARDS DESTINATION BRAND LOYALTY

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ABSTRACT

In the literature, authors pay special attention to the attitudes of the local population towards tourism and how they perceive the attitudes of sustainable tourism, tourists and tourism in general. Sustainable tourism development enables perceived economic benefits by ensuring a fair distribution of socio-economic benefits to the local population. In the tourist destination, the development of tourism was carried by the local population, which strives to build the brand of the destination and achieve an increasing number of overnight stays. Destinations that successfully integrate sustainability into their operations are often perceived as responsible and environmentally conscious, which serves as a competitive advantage for attracting tourists. The aim of the research is to examine the local population's perception of sustainable tourism development from the economic aspect and loyalty to the city where they live. Destinations that systematically promote sustainability contribute to building a tourist destination brand. The research used a google forms survey, and the SPSS program was used for the research results. The results of the research indicate how much the local population feels a relationship with the brand of the destination where they live, they will support measures that ensure the sustainability of the tourism industry and they will be more loyal to the destination.

Keywords: *loyalty, perceived economic benefits, sustainable tourism development, tourism destination brand*

1. INTRODUCTION

In addition to ensuring that visitors and residents alike get what they want from their destination experiences, sustainable tourism aims to preserve resources for future generations (Haid, Albrecht, Finkler, 2021). Sustainable tourism is defined by the World Tourism Organization (1993) as tourism that maximizes current potential and accommodates the needs of host people and tourists, while enhancing opportunities for the future. The goal of sustainable tourism is to provide tourists with a pleasurable experience while simultaneously improving the quality of life for local host communities and protecting natural and cultural settings (Liang, Hui, 2016). Hunter (1997) put up an alternative conceptualization. According to him, the concept of sustainable tourism development is based on the following ideas: preserving the environmental resource base for tourism, which includes both natural and cultural elements; enhancing the living standards and quality of life of the local host community; and meeting the needs of both tourists and the tourism industry while luring new ones. Anderec and Nyaupane (2011) confirm the positive and advantageous impact of tourism on the sense of quality of life. The idea of sustainable tourism development has been refined by many researchers to include three interrelated but distinct components: economic, environmental, and social (Butler, 1999; Murphy, Price, 2012). The achievement of the three fundamental goals that make up the tourist sector's dimensions is the foundation for its sustainable development: The economic component, which incorporates goals like enhancing the local economy and making the most

use of the infrastructure for tourists already in place, as well as upkeep and the socio-cultural dimension includes things like the level of local engagement in the establishment of sustainable policies, the preservation and enhancement of culture and the local history, and the creation and improvement of satisfying employment in the tourist sector (Asmelash, Kumar , 2019) Also the ecological dimension encompasses goals including reducing harmful emissions produced by the tourist industry and protecting natural resources, both of which are essential to the industry. All of these factors are important for promoting and assisting the growth of next generations in a tourist destination. Additionally, it includes local communities and citizens in decision-making and strategic planning processes (Pike, Page, 2014). A tourist destination can be thought of as a complex combination of tourism-related goods and services where visitors can engage and build connections with a variety of existing features, interest groups, and key players, including retailers, hotel owners, and restaurateurs, all of who are essential to the co-creation of tourism experiences (Hanna et al., 2018). According to Yu, Chancellor, and Cole (2011), the local population plays a critical role in ensuring the sustainability of tourism, and their participation in the planning process is essential to the development of sustainable tourism. The significance of local population attitude has been demonstrated by Sirakaya et al. (2008). They point out that local population attitude is a determinant of successful tourism and that destination managers and policy makers can gain from a better understanding of local population attitudes towards sustainable tourism development. The local population's perception of tourism has a big influence on how the industry grows (Yu et al., 2009). The behavior model of the local population is reflected in international and multicultural perspectives on a community based on sustainable tourism development, and perceived economic benefits and perceived economic costs contribute to the development of sustainable tourism (Lee, 2013). The relationship between visitors and the local community determines the direction of sustainable tourism development. The authors acknowledge the pivotal role of the residents and delve into their perceptions to enhance residents' awareness regarding the adverse effects of tourism, aiming to foster sustainable and eco-friendly tourism development (Goliath-Ludic and Yekela, 2020).

2. LITERATURE REVIEW

In addition to the established practices of regulation and development management, sustainable tourism has been crucial in finding means of securing favorable outcomes (Bramwell & Lane, 2012). In order to establish sustainable tourism, it is imperative that the local community be involved in the planning and environmental management of the tourist destination (Godfrey, 1998) . According to Mangwane and colleagues (2019), it is imperative for local communities to participate in sustainable tourism activities and respect responsible tourism ethics while managing and operating their tourist businesses. This research Song, Zhu and Fong (2021) investigates how residents perceive the impact of tourism in Benalmadena and identifies profiles of residents based on socio-demographic characteristics. Through questionnaires, the study assesses how these characteristics shape residents' perception of the environment, economy and socio-cultural aspects under the influence of tourism. Respondents with less than five years of residence showed a more positive attitude towards the impact of tourism. The study (Song, Zhu, Fong, 2021) revealed a significant main effect of age on the economic impact of tourism. Specifically, people under 20 years old had a positive attitude towards the economic impact of tourism, while those between the ages of 45 and 64 showed the least favorable attitudes. Education level has a significant influence on the socio-cultural impact. As education levels increased perceptions of the sociocultural effects of tourism generally got better. Some of the principles of sustainable tourism development in the context of this paper are: The equitable dissemination of benefits derived from tourism and economic benefits must be equitably distributed (Nicholas, Thapa, 2010).

In most destinations, tourism is essential to the growth of the local economy. While the economics of the tourism sector is generally given more weight than environmental concerns, in the context of sustainable tourism development, the order of importance is flipped, with ecological concerns taking precedence over economic considerations. The economic aspect of sustainability highlights the need to maximize benefits while limiting expenses in order to support and strengthen the industry's viability (Nicholas, Thapa, 2010). Economic sustainability promotes fair distribution of economic benefits to community residents and that can be achieved through the promotion of full community participation in the development process and the provision of national and international support (Choi, Sirakaya, 2005). The economic aspects of the global tourism industry have resulted in the emergence of a highly competitive market. In this environment, marketing has become increasingly significant, aiming to enhance economic indicators as symbols of progress and well-being for residents of tourist destinations (Zolfani et al., 2015). The study (Anderec, Nyaupane, 2011) revealed that the perceived individual advantages gained from tourism serve as a mediator in influencing how economic factors such as quality of life, interaction with tourists, and employment in the tourism sector shape one's perception of tourism's contribution to the local economy. The local population often values the economic benefits resulting from tourism more than the negative aspects, which means that residents often see tourism as a source of economic gain for their community, which can positively influence their attitudes towards tourism, and research (Lindberg, Johnson, 1997) confirms that the perception of economic benefits plays a key role in shaping attitudes of the local population towards tourism. In terms of the economy, tourism generates employment or raises the possibility that attitudes connected to jobs are more readily available in tourism. The creation of jobs is emphasized in sustainable tourism development, which can raise the significance of economic benefits that local residents attach to tourism (Robertson and Crotts, 1992). In the discussion of sustainable tourism, the environmental aspect of the industry has received more emphasis than the social aspect. According to Swarbrooke (1999), this tendency can be attributed to the idea that socio-cultural consequences are generally intangible, happen more slowly, and are generally mild. Impacts on the sociocultural fabric of the host community are the main focus of social sustainability. It places a strong emphasis on locals' participation in tourist development, which helps to ensure that the advantages of tourism are distributed fairly. Owing to the substantial revenue created by the tourist industry, the economic impact of tourism is receiving more attention than its socio-cultural ramifications, which are equally significant and have the potential to either support or undermine the industry's growth. The contact between visitors and hosts during tourism has an effect on the sociocultural setting of the host communities (Enemuo, Oduntan, 2012). The social and cultural consequences of tourism refer to how tourism is seen to affect changes in social values, individual behavior, family dynamics, community lifestyles, levels of safety, moral behavior, creative expression, traditional ceremonies and community organizations (Enemuo, Oduntan, 2012). These perceived effects on host communities or destination areas can be divided into two main categories. One category encompasses attributes of the destination area, including perceived social impacts resulting from interactions between residents and visitors. Examples of such influences include cultural differences, crime rates, which include changes in the values, attitudes or behavior of the local population due to exposure to tourists until The second category of perceived impacts refers to social impacts on infrastructure development and their perceived consequences on local resources (Ap, Crompton, 1998:121) . These include changes in living habits, strains on local facilities and resources, issues with local vs. imported labor, and effects on the local language and culture. The objective of this study Tovar and Lockwood, (2008) was to evaluate the social effects of tourism in a rural area of Australia, recognizing that the support of host communities is essential for ensuring the sustainability of the tourism industry.

The benefits that individuals gain from rising real estate values and job opportunities have been compared to rising prices. The economic and social progress of the region due to the influx of new residents was threatened by the higher cost of living. Research findings (Tovar and Lockwood, 2008) have shown that currently the benefits of such compromises, either at the personal level or at the community level, are driven by the expansion of the tourism industry. The most often used definition of brand loyalty is provided by Aaker (1992), who characterizes it as the brand's attachment to the customer. When referring to a place, brand loyalty would be the consumer's choice when choosing a destination to go to (Konecnik and Gartner, 2007). Place loyalty is demonstrated by returning visitors and their intention to return (Ostrowski, O'Brien, Gordon, 1993). According to Oppermann (2000), loyalty research in the tourist industry should prioritize the behavioral approach, which is also the method that researchers adopt most generally (Zhang et al., 2014). The benefits that a devoted visitor ultimately provides to a location are mostly driven by their actions. This behavioral approach was previously considered in the preliminary studies on loyalty (Oliver, 1999) where it is specifically theorized that customers first develop a cognitive sense of loyalty, followed by an emotive sense, a conative sense, and a behavioral sense. According to McKercher et al. (2012) state that research on loyalty in the context of tourism has typically focused on a single location and ignored to take into account the complex interactions that exist between several units of analysis at the same level within the tourism system. The author (McKercher et al. (2012) demonstrates that travelers can behave loyally towards many locations at once, as well as towards various providers at the same level within the tourism system. The fact that many goods and services in the tourist industry are equal in terms of both quality and experience is what supports the shared loyalty behavior (Baloglu, 2002). The research conducted by Jurišić, Dlačić, and Grbac (2019) considered various influential factors that impact the creation of a tourist destination brand. The findings of their study indicates that brand awareness enhances perceived value, and perceived value positively contributes to brand loyalty. As an important component in this process is loyalty, loyalty is demonstrated by the locals' motivation to stay involved in the destination's tourist growth and by their emotional bond (Jurišić, Dlačić, Grbac, 2019). In accordance with everything stated, the aim of the research is to examine the perception of the local population on perceived economic benefits, perceived social costs and loyalty.

2.1. The connection between sustainable tourism development and loyalty

The concept of the connection between sustainable tourism development and the brand of a tourist destination was carried out by Jurišić (2018). There is little empirical research in the literature that links these two variables. The dissertation highlights the concept's usefulness in integrating sustainable tourism development with a destination's brand. The study's findings suggest that perceived financial gains have a major impact on brand loyalty, staff quality, and brand value (Jurišić, 2018). In a review of previous research, the study by Sánchez-Teba, Benítez-Márquez, Romero-Navas, (2019) linked the variables of sustainability and loyalty through the research of residents' negative perception of tourism in Fuengirola, Spain, with a new focus on residents' loyalty to their tourist destination. Using a confirmatory structural equation model, the study identifies three dimensions of negative perceptions (economic, social and environmental) and examines their impact on residents' happiness. The findings support the hypothesis that negative perceptions correlate positively with each other and negatively with happiness, while resident loyalty positively affects happiness. In particular, resident loyalty appears as the strongest direct positive influence on happiness, overshadowing the relatively weaker negative impacts of negative perceptions. These results underscore the importance of place loyalty in increasing residents' happiness, echoing previous findings linking loyalty to perceived neighborhood prestige (Sánchez -Teba, Benítez-Márquez, Romero-Navas, 2019).

Recognizing the need to maintain its competitive edge and meet tourists' demands for quality and sustainability, Pattaya (Thailand) aims to enhance its environmental, economic, and socio-cultural values. The research (Anuwichanont, Gulid, 2009) investigates how tourists' perceptions of these values impact their satisfaction and commitment to Pattaya's night tourism. The study finds no significant relationship between environmental values and satisfaction or commitment. However, economic and socio-cultural values positively influence satisfaction and trust. Additionally, satisfaction and commitment significantly affect tourists' loyalty to Pattaya. These findings highlight the importance of economic and socio-cultural aspects in enhancing tourist satisfaction and commitment, ultimately fostering loyalty to the destination (Anuwichanont, Gulid, 2009). López-Sanz et al., (2021) focuses on how rural tourism is becoming more and more significant to the Spanish economy and how it helps host communities thrive sustainably. By examining how destination image, visitor satisfaction, and loyalty determine rural visitors' behavior, the study intends to attract attention to how important loyalty is in advancing sustainable development. By emphasizing the value of promoting visitor loyalty for long-term gains, this study (López-Sanz et al., 2021) enhances knowledge of sustainable rural development and tourist loyalty for long-term benefits. Loyalty is key to the social and economic sustainability of the area since, increasing numbers of visitors, as well as the degree to which tourists who already know the area return for repeat visits, favors and is a key tool in the development and economic growth of the destination areas (López-Sanz et al., 2021). Also, it is noticed that satisfaction and new destination image have a significant influence on loyalty.

3. METHODOLOGY

A scale reflecting the local population's attitude towards sustainable tourism development (referred to as the SUS-TAS) was created by Choi and Sirakaya (2005) while to measure loyalty was used according to Liu, Liu, Lin (2015). A 7-point Likert scale, with 1 meaning "strongly disagree" and 7 indicating "strongly agree," was used for all items. The research questions were designed according to the local population's perspective, in contrast to earlier studies that relied on visitor impressions. Google Forms was used to create the survey, which was then distributed to friends and family in Makarska along with instructions to forward it to other people. Between February 19 and February 25, 2024, 130 respondents correctly completed the questionnaire. The respondents are local residents of the city of Makarska. After Split, the city of Makarska has the highest percentage of overnight stays in the Split-Dalmatia County; as such, it is significant for the selection of studies. SPSS was used to examine the data.

4. RESEARCH RESULTS

The results of the sample in this research are shown in table one.

Table following on the next page

Sex:	N (130)	%
Little ones	37	28.5%
Female	93	71.5%
Ages:	N	%
younger than 18	4	3.1%
from 19 to 24	41	31.5%
from the 25th to the 29th	30	23.1%
from 30 to 39	28	21.5%
from 40 to 49	19	14.6%
from 50 to 60	7	5.4%
older than 60	1	0.8%
Educational level:	N	%
elementary school	1	0.8%
secondary education	63	48.5%
higher education - undergraduate studies	33	25.4%
higher education - graduate studies	31	23.8%
higher education - postgraduate studies	2	1.5%
Marital status:	N	%
unmarried/unmarried	70	53.8%
married	57	43.8%
divorced	2	1.5%
widower	1	0.8%
Working status:	N	%
employed	98	75.4%
unemployed	5	3.8%
student	26	20.0%
pensioner	1	0.8%
How long have you been employed?	N	%
less than 1 year	13	10.0%
from 1 year to 5 years	45	34.6%
from 6 years to 10 years	27	20.8%
from 11 years to 20 years	22	16.9%
from 21 years to 30 years	9	6.9%
I am not employed	14	10.8%
employed in tourism	N	%
yes	69	53.1%
no	61	46.9%
working in tourism?	N	%
less than 1 year	3	2.3%
from 1 year to 5 years	30	23.1%
from 6 years to 10 years	19	14.6%
from 11 years to 20 years	11	8.5%
from 21 years to 30 years	6	4.6%
I don't work in tourism	61	46.9%

Table 1: demographic characteristics (Source: authors)

The analysis of demographic data from Table 1 provides an insight into the demographic characteristics of the sample. Men comprise 28.5% of respondents in the research, while women make up the majority with 71.5%. Women dominate the sample of this study. The largest share of respondents is between the ages of 19 and 24 (31.5%), followed by the age groups of 25 to 29 (23.1%) and 30 to 39 (21.5%). There is a trend of decreasing number of respondents with age, with the smallest share of respondents in the age group over 60 years old (0.8%). The majority of respondents have a medium level of education with completed high school (48.5%), while significant minorities are those with higher education, including undergraduate (25.4%), graduate (23.8%), and postgraduate studies (1.5%). In the sample of this research, most respondents are not married (53.8%), while 43.8% of respondents are married. A smaller number of respondents were divorced (1.5%) or widowed (0.8%). Table 1 shows that the majority of respondents are employed (75.4%), while students are the second largest category (20.0%). A smaller percentage of respondents are unemployed (3.8%) or retired (0.8%). The largest share of respondents has work experience from 1 to 5 years (34.6%), which is understandable considering the age of the respondents, followed by work experience from 6 to 10 years (20.8%) and from 11 to 20 years (16.9%). A smaller percentage of respondents have shorter or longer work experience. Also, by analyzing the demographic data, slightly more than half of the respondents (53.1%) are employed in tourism, while the other half do not work in tourism (46.9%), of which the largest share of respondents who work in tourism have work experience of 1 to 5 years (23.1 %) and from 6 to 10 years (14.6%) which is a consequence of the age category.

Descriptive Statistics

	N	Min	Max	Noise	Mean	Std. Deviation	Variance
perceived economic benefit1 [Tourism brings strong economic contributions to my city.]	130	1	7	710	5.46	1,685	2,840
perceived economic benefit2 [Tourism also affects other activities of my city, not only the tourism industry.]	130	1	7	692	5.32	1,726	2,980
perceived economic benefit3 [Tourism brings new income to my city.]	130	1	7	727	5.59	1,674	2,801
perceived economic benefit4 [Tourism generates significant tax revenues for the city self-government.]	130	1	7	711	5.47	1,699	2,887
Valid N (listwise)	130						

Table 2: Descriptive statistics of perceived economic benefits (PEB) (Source: authors)

In the case of perceived economic benefits for each statement, all averages are above the middle of the scale, which indicates that respondents generally perceive the economic benefits of tourism positively. The standard deviation varies, indicating variability in responses across respondents. The claim that tourism brings new income to the city has the highest average score of 5.59, while the lowest score is 5.32, where respondents believe that tourism contributes to activities other than the tourism industry.

Descriptive Statistics

	N	Min	Max	Noise	Mean	Std. Deviation	Variance
perceived social costs1 [Tourists in my city interfere with my quality of life.]	130	1	7	396	3.05	1,859	3,455
perceived social costs2[The city is overcrowded due to tourism.]	130	1	7	520	4.00	1,933	3,736
perceived social costs3[Tourists overuse the recreational resources of my city.]	130	1	7	382	2.94	1,706	2,911
perceived social costs4 [Tourism in my city is developing too fast.]	130	1	7	521	4.01	1,767	3,124
Valid N (listwise)	130						

Table 3: descriptive statistics of perceived social costs (PSC) (Source: authors)

The perception of certain social costs associated with tourism differs among respondents because there is variation in responses among respondents, which is reflected in both standard deviation and variance. The lowest average rating with 2.94 is carried by the claim that Tourists overuse the recreational resources of my city, while the highest average rating is 4.01 and the claim Tourism in my city is developing too fast.

Descriptive Statistics

	N	Min	Max	Noise	Mean	Std. Deviation	Variance
loyalty 1 [I enjoy living in this city.]	130	1	7	700	5.38	1,644	2,704
loyalty 2[The city I live in is a great choice for a vacation.]	130	1	7	695	5.35	1,724	2,972
loyalty 3 [I am faithful/to the city where I live.]	130	1	7	691	5.32	1,721	2,962
loyalty 4 [I would advise others to live in this city.]	130	1	7	673	5,18	1,802	3,248
Valid N (listwise)	130						

Table 4: descriptive statistics of loyalty (Source: authors)

Respondents with a score of 5.38 on average rate their loyalty to the city they live in highly because they enjoy living in Makarska. The results indicate a general positive perception of loyalty in the city where they live. Most of the respondents think that the city where they live is an excellent choice for vacation, with an average score of 5.35. This indicates that the respondents see their city as an attractive vacation destination. Respondents express a high level of loyalty to the city, with an average rating of 5.32, which the results of the survey show us that the respondents have a deep connection with the city they live in. They would recommend Makarska to others for life.

Correlations

		PSC	Loyalty
PSC	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	130	
Loyalty	Pearson Correlation	-,159	1
	Sig. (2-tailed)	,071	
	N	130	130

Table 5: Correlation between perceived social costs and loyalty (Source: authors)

The correlation between perceived social costs and loyalty is -0.159. This indicates weakly negatively correlated variables.

This means that there is a sort of inverse relationship between the two variables: when one variable increases, the other variable tends to decrease, and vice versa. However, the correlation is not statistically significant at the 0.05 level (p-value is 0.071), which means that it cannot be confidently asserted that a correlation exists. In conclusion, there is a weak negative correlation between perceived social costs and loyalty , but this correlation is not statistically significant at the 0.05 level.

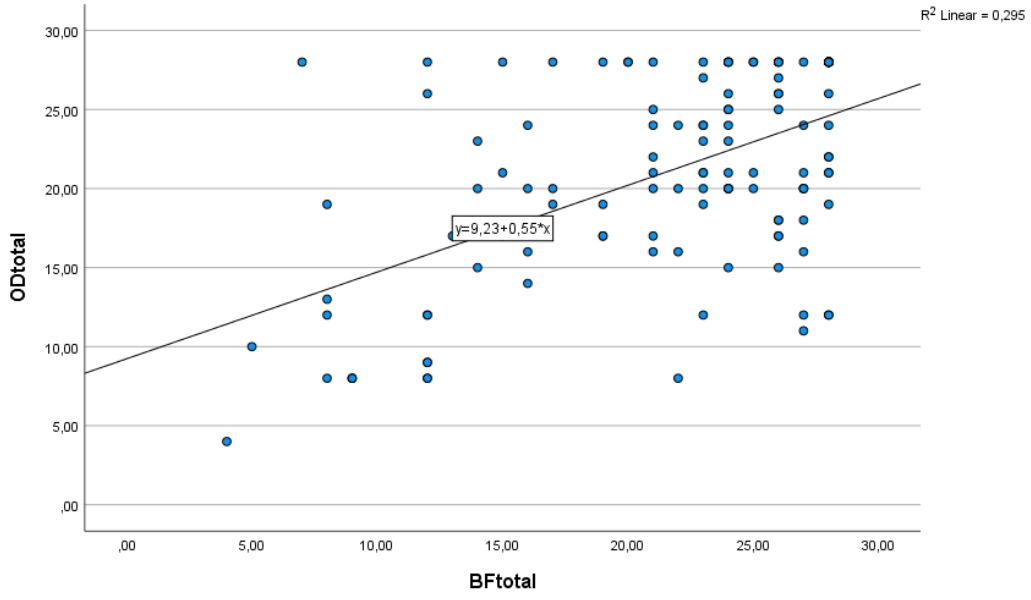
Correlations

		PEB	Loyalty
PEB	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	130	
Loyalty	Pearson Correlation	,543 **	1
	Sig. (2-tailed)	,000	
	N	130	130

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

Table 6: Correlation between perceived economic benefits and loyalty (Source: authors)

The correlation coefficient between perceived economic benefits and loyalty is 0.543. The positive correlation coefficient indicates a clear tendency: as perceived economic benefits increase, loyalty also tends to increase, and conversely, when one variable decreases, the other tends to decrease. The p-value between perceived economic benefits and loyalty is 0.000. The p-value associated with the correlation between perceived economic benefits and loyalty is 0.000, which is less than 0.01, further confirming the statistical significance of the correlation at the 0.01 level. The exceptionally low p-value underscores a high level of confidence in the observed correlation between these variables.



Graph 1: graphical representation of the correlation between perceived economic benefits and loyalty (Source: authors)

The chart illustrates the relationship between these variables, where perceptions of economic benefits are marked on the x-axis, and loyalty is marked on the y-axis, with a correlation of 0.543 suggesting a positive trend.

This means that the points on the graph will be distributed towards the upper right, indicating that higher values of perceived economic benefits are typically associated with higher values of loyalty. Analyzing the graph depicting the correlation between perceived economic benefits and loyalty allows us to visually identify and interpret the pattern or trend present in the data.

5. CONCLUSION

The role of sustainable tourism development is crucial in creating a brand of a tourist destination, and the significance and importance of loyalty for the destination is unquestionable. The contribution of the local population is manifold. In addition to participating in the creation of the brand of a tourist destination, it usually plays a key role in the economy, either through the workforce in the tourism industry or through tourism that perceives economic benefits. Also, including social and other aspects. Preservation and support of the local population are essential for the sustainable development and well-being of the community so that they remain loyal to the destination where they live. In the demographic characteristics of the respondents, the younger population stood out, of which 75% are employed, and 20% are students. The total number of correctly completed surveys is 130, which represents one of the limitations and it is recommended for future research to take a larger sample. Also, it is necessary to perform the I test of normality of the distribution. The paper shows the correlation between perceived social costs and loyalty and perceived economic benefits and loyalty. The research established a statistically significant correlation between perceived economic benefits and loyalty in a positive direction, which means that if the perceived economic benefits are greater, loyalty to the destination will be greater. The relationship between perceived social costs and loyalty did not show a statistically significant relationship except for the negative aspect, which would mean that if the costs were higher, loyalty would be lower and vice versa.

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HOW TO PUSH OIL & GAS COMPANIES TO REALISE CLIMATE CHANGE MITIGATION AND LEADING THE SECTOR TOWARDS SUSTAINABLE MARKET TRANSFORMATION?

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ABSTRACT

The paper provides an analysis on the modalities that are most influential in bringing about changes in corporate behavior in the Oil & Gas sector related to corporate climate change mitigation. Insights will be discussed whether and how the Oil & Gas sector is realizing a sustainable market transition. Sustainable market transformations are key to creating long-term sustainable development. Markets are embedded in complex socio-economic and socio-technical systems and can move from unsustainable to more sustainable. Simons and Nijhof (2022) introduced their 'Sustainable Market Transformation Framework' to reveal how transformations develop through different phases. Changes in the market can be triggered due to several reasons and at different levels, for example new normative measures, innovations, or a changing discourse of what is right or wrong. The dynamics of the phases can be modified via a chain of causal connections. We apply the SMT theory to the Oil & Gas sector in Europe as this sector is among the high-risk sectors as identified by the Taskforce on Climate-related Financial Disclosures (TCFD). Our units of analysis regard five Oil & Gas companies operating in Europe of which we have collected and analyzed publicly disclosed data in the period 2017-2022 (book years 2016-2021), that reflect their ambitions and activities after the 2015 Paris Agreement. To systematically analyze the changes in each company's behavior, and the motivation therefore, we employ Lessig's Modalities theory (1998). Lessig identifies four regulators—law, market, norm, and architecture—that influence behavior of individuals and organizations. The research findings can provide guidance to governments, companies, and civil society for real-world sustainable market transformations. Also, they deepen the conceptual understanding of the SMTF-theory by developing a research protocol that can be used by other researchers to examine other (high-risk) sectors and markets and/or the same sector over time.

Keywords: *Sustainable Market Transformation Framework (SMTF), Lessig's Modalities theory, Oil & Gas Sector*

1. INTRODUCTION

1.1. Sustainable Development

In 1962 Rachel Carlson wrote one of the first internationally known and ground-breaking books related to sustainability and the interaction between humans and our environment. Silent Spring challenged destructive corporate practices concerning among others the increased use of fertilizers. It aimed to make us re-evaluate our way of life and our relationship to the natural world. Many decades later, we keep coming back to the same questions of how to achieve environmental justice and how to stop the continuous increase of the earth's temperature. As stated by David Biello, the upcoming century will be of key importance and the choices we make now "will help set the course of the entire planet for at least tens of thousands of years. If people, plants, and animals don't like the climate of 2100, 2500, or perhaps even 25000, they will have us to blame" (2016, p. 5). The Paris Agreement found its origin in 1992 when the United Nations Framework Convention on Climate Change was initiated. The Paris Agreement was adopted in 2015 at the annual gathering of the Parties to the Convention. Its goal is to stabilize greenhouse gas (GHG) emissions in the atmosphere "at a level that would prevent dangerous anthropogenic interference with the climate system" (Horowitz, 2016). By 2024, 196 States have joined the Paris Agreement. A related approach towards reducing GHG emissions is a 'Green Deal'. A Green Deal can generally be described as "a strategy for Mobilization of whole community and enterprises to create clean and green economy through implementation of pro-environmental solutions in various sectors, which take into account the three aspirations of sustainable development–- the well-being of people, the environment and economic sustainability" (Smol, 2022). The most ambitious Green Deal was released by the European Union in 2019 and aims to achieve 100% GHG emission reductions by 2050 (Hainsch et al., 2022).

1.2. The Oil & Gas sector and its impact on sustainable development

Degradation of the Earth's ecosystems, the heating of the atmosphere and other related environmental damaging developments cannot be tied to one country, one sector or one company. However, the main trigger for the climate change crisis is the Oil and Gas sector. The Oil & Gas sector produces products and fuels that are widely integrated in all parts of society. They are used in expected and potentially unexpected industries, such as transport, plastic production, but also fertilizers, clothing, insecticides and even toothpaste. The total emissions emitted by extracting, refining, and burning oil and gas during transport and other production processes represent more than 50% of global GHG emissions (Xu and Chen, 2016). This makes the sector by far the most significant contributor to the burning of fossil fuels and hence the main trigger for rising global temperature. An assessment done by the world benchmarking alliance of the UN Sustainable Development Goals (SDGs) shows that the energy transition and decarbonization (SDG 13 climate action) has both positive and negative spillover effects into several other SDGs such as SDG 1 (no poverty), SDG 3 (good health and wellbeing), SDG 7 (affordable and clean energy), SDG 9 (industry, innovation and infrastructure), SDG 12 (responsible consumption and production), and SDG 17 (partnerships for the goals)(UN General Assembly, 2015). Since 2015, the Paris Agreement has been widely referred to in Annual Reports and Sustainability Reports. Oil & Gas companies picked up on the trend. References to the Paris-targets linked to their own increased focus on reducing GHG emissions became common practice. However, actual achievements have disappointed many global and national actors. For this reason, Friends of the Earth–Netherlands sued Shell in a landmark case, alongside six other NGOs including the National Association for the Preservation of the Waddenzee and thousands of citizens (District Court of The Hague, the Netherlands; 2020).

Even though Shell tried to convince the court of its recent progression towards sustainability goals and targets, the verdict focuses on the fact that the Shell's targets and disclaimers stated in the annual reports, are bound to external factors such as societies' progression in emission reduction: "in step with society and its customers" (District Court of The Hague, Klimaatzaak Urgenda, analyzed and translated by Dentons, hereafter the 'Shell Verdict'). As stated in the notes of the case, externalized targets are not in line with the court's expectations. Therefore, the court ruled that by 2030, Shell must have reduced its GHG emissions by 45% compared to 2019 levels, including its own emissions and those of its suppliers and customers (tier 1-3). This case was the first of its kind to accomplish legal corporate obligations related to the goals set by the Paris Agreement and the European Green Deal. In light of this case researching transformation in the Oil and Gas sector becomes all the more relevant.

1.3. Sustainable Market Transformation Framework

A variety of concepts has entered the scientific community to describe fundamental shifts in society. Over time, the term "transformation" is gradually becoming more institutionalized and has been further developed and examined over time (Feola, 2015; Rotmans et al., 2007; Pesch, 2014; Köhler et al., 2019). Research on sustainable market transformations focuses on how markets that are embedded in complex socio-economic and socio-technical systems can move from unsustainable to more sustainable (Loorbach et al., 2017). This is what has been introduced by Nijhof et al. (2022) as Sustainable Market Transformation (SMT). The SMT-theory explains that transformations develop through different phases, where each phase is part of a changing social system. The indicators which are considered indicative of each phase are set out in the Sustainable Markets Transformation Framework (SMTF). In Phase 1, , which is called "Inception", there is an increase of societal discussions, civil society interventions and overall pressure from various actors that raises awareness about sustainability matters (Argyrou et al., 2022). First signs of change show itself in co-creations, innovative projects and exploring new business opportunities. Phase 2 is called "Competitive Advantage". Here, several of the innovations and opportunities are proved to have a strong business case. First movers utilize these advantages and trigger the development of sustainability standards and a new sustainability focused paradigm (Kivimaa et al., 2020). In this phase, root causes of unsustainable behavior are not yet tackled or solved. In Phase 3("Synergy"), actors realize that only focusing on competitive advantage is not creating the change needed to achieve the full benefits of sustainable actions and initiatives. Via collaboration actors try to align their work to develop overarching frameworks and targets, such as the SDGs (Simons & Nijhof, 2021). There is an increased focus on legislation to eradicate and penalize laggards. This creates the conditions for Phase 4 to kick in, "Institutionalisation". In this phase legal structures are maturing further, and the majority of market actors is contributing to making structural changes. The sustainability problem now operates in a level playing field or is solved entirely. A new sustainable market has been established. If new sustainability issues arise, the transformation starts a new cycle of phases (Nijhof et al., 2022).

1.4. The Oil & Gas sector in the sustainable market transition

Research focusing specifically on the transformation process of Oil & Gas companies is important for two reasons. Firstly, as outlined earlier, this sector is contributing most to the increase in global temperature. The climate crisis has several adverse spill-over effects on other SDGs outside the ones related purely to energy, with the Oil & Gas sector as main trigger. Secondly, it is observed by several scholars that when a sector's sustainability transformation is in its early stages, relatively small players or new companies entering a sector ('Emerging Davids') are more likely to be proactive to push the transition forward than established corporates (Hockerts & Wüstenhagen, 2010).

However, these larger players have a superior market power, more financial resources and a broader international reach and hence have a larger potential to contribute significantly to a SMT ('Greening Goliaths') even when their sustainability ambitions are lower. Moreover, while Greening Goliaths tend to lag behind the Emerging Davids with agility and innovation capacity, they are capable of making a bigger impact via their strengths in process innovation (Hockerts & Wüstenhagen, 2010). When we look at the large players in the Oil & Gas sector over a period of six years, do we see progression in their actions towards a sustainability transformation? Is the sustainable market transformation in Oil and Gas companies a successful transition or a house of cards? Due to the evident importance of Oil & Gas companies on the earlier mentioned broad range of sustainability matters, this article aims to dive deeper into the sustainability transition of the Oil & Gas industry. The remainder of this article is built up as follows. In section two, we dive deeper into the research method, which is based on a case study approach. In section three, we present our findings. In the final section, we explain the relevance of our findings in relation to the overall sustainable market transition in the Oil & Gas sector and highlight elements that can be relevant for the broader global sustainability transition.

2. METHODOLOGY

2.1. Sustainable Market Transformation Framework and Lessig's four regulators

As the theoretical basis for this study, we selected the SMTF. We applied the therein pre-defined indicators in our analysis of the way how several Oil & Gas companies move through the SMTF phases (see paragraph 1.4). Our units of analysis regard five Oil & Gas companies operating in Europe of which we have collected and analyzed publicly disclosed data that reflect their ambitions, transition plans and activities over the period 2016-2022 (book years 2017-2022), hence starting with the book year after the 2015 Paris Agreement. To systematically analyze what motivates these Oil & Gas companies to move towards the next SMTF phase, an additional theoretical framework is employed. That is the 'Modalities Theory' developed by Lawrence Lessig (1998). Lessig (1998) identifies four regulators that influence behavior of individual persons and organizations: Law, Market, Norm, and Architecture. The 'Law' regulator encompasses rules, regulations, contracts, and supervision. In the Oil & Gas sector, this involves legislation (national legislation, European legislation, and international treaties) on reducing GHG-emissions and may include incentives like subsidies or taxes. The 'Market' regulator entails the economic relations between parties, wherein sustainability is incentivized by competition, prices, and supply & demand dynamics. Companies may adopt sustainability for a competitive advantage or to meet market demands. The 'Norm' regulator involves community-enforced behavioral constraints, influencing the culture of individuals in the Oil & Gas sector regarding sustainability, encompassing ethics, social interactions, and sector agreements. Finally, the 'Architecture' regulator refers to existing features that restrict or enable behavior, including algorithms, programs, innovation spaces, physical constraints, and the overall business environment. These four regulators will be used for the analysis of the data which we collected concerning the Oil & Gas sector, as further described in the data collection section.

2.2. Data collection and analysis

From the Shell Verdict onwards (see chapter 3), the relevance of annual reports and sustainability reports appears to be evident in analyzing sustainable development aimed for by Oil & Gas companies. Hence, these types of public documentation have been used as the starting point for developing the research protocol of this study. In the collected documents, we searched by means of key words, complemented with 'intelligent searches', e.g., by checking for subjects related to transformation via the table of content of such public reports. The key terms included references to 1) Law, 2) Market, 3) Norm and 4) Architecture.

The data have been collected and analyzed through the five steps depicted in the Research Protocol (table 1). In line therewith, reflections are provided concerning the state of sustainability transition, as well as further guidance for the Oil & Gas sector, in Chapter 3 and 4.

Step	Description
1.	The five largest Oil & Gas companies that are publicly listed on a European Stock Exchange were selected for the case studies (Shell, BP, ENI, Gazprom, Total).
2.	Annual reports and sustainability reports concerning the five case study companies over a period of six years were collected online.
3.	For each of the thirty points of analysis (five case studies times six years), a separate factsheet was completed, containing: (a) information such as name and contact details of the company; (b) the documents used for the point of measurement; (c) a description of the activities; (d) indications that were used to search the documents; and finally (e) all sentences and notes that were assessed as relevant to analyze and determine the solution directions apparent in the SMTF Phase, via clustering them based on the four key regulators according to Lessig: 1) Law, 2) Market, 3) Norm and 4) Architecture. We included all the information in one Excel data file.
4.	Next, using a triangulation process, the researchers individually reviewed the clusters to assess which regulators of corporate behavior (Law, Market, Norm, Architecture) are most effective to move corporate actions and solutions in high-risk sectors towards the next phase of a SMT.
5.	We debated our choices in multiple consequent meetings to eliminate any bias, and finally agreed on our reflections of which regulators are most effective.

Table 1: Research Protocol

3. FINDINGS

3.1. Reflections about the companies' ambitions and actions communicated in year 2017

In the analysis conducted concerning information published in the year 2017 (regarding the book year 2016), it is evident that the focus across the annual reports of all five companies aligns with the characteristics of SMTF Phase 1. BP's acknowledgment of the 2015 Paris Agreement and its commitment to fostering a transition towards a low-carbon future falls in the category of the regulator Law. BP's ambitions can be classified as Phase 1-ambition. This phase is characterized by an absence of established sustainability norms, as found in recurrent deferring of blame in the reports of several companies. For instance, Shell's statement regarding the complexities of issues in the Niger Delta "We simply cannot blame one party for all the woes in the Niger Delta" and BP's statement: "The world should prioritize" instead of focusing on what they can achieve sustainably themselves. Furthermore, the suboptimal performance in emissions reduction, exemplified by ENI's noted increase in GHG emissions, further reinforces the prevalence of Phase 1. In terms of the regulator Architecture, companies are also in Phase 1 with pilots being gradually initiated. Although glimpses of ambitions and activities that could be qualified as Phase 2 ambitions and activities are visible in certain sections of the reports, particularly towards the later pages, these aspects appear to be less central and are possibly less influenced by CEO involvement. Gazprom's emphasis on competition highlights that companies are starting to see the fruits of positioning themselves in the market as sustainable. Gazprom: "The Paris climate accord that took effect on November 4, 2016, opens up new prospects for gas consumption" (…) and can hence "improve low-carbon development of EU countries". Moreover, indications of collaboration between industry players are emerging, with both Shell and BP expressing intentions to collaborate. Shell's CEO emphasizes the necessity of business-civil society collaboration "It will need collaboration between business and civil society", while BP's CEO underscores the power of collective action. Such collaborative aspirations signal a potential shift towards Phase 3, where collaboration becomes a defining characteristic.

3.2. Reflections 2018

In parallel to their 2017 positions, Gazprom, Total, and ENI continued to operate within Phase 1. Total, notably passive in their approach, articulated a strategy of cautious anticipation, as evidenced by their expressed willingness to await the maturation of policies and innovations before committing fully to sustainability targets. This is captured in their statement: "In the longer term, beyond 2030, our ambition is to pursue these efforts, or possibly to accelerate as new technologies become available and public policies are put in place and reach a reduction of 25 to 35% by 2040." Meanwhile, Gazprom remained heavily fixated on financial performance, as underscored in their sustainability report: "In 2018, we achieved record-high levels of revenue, EBITDA, and net income (..)." Notably absent from Gazprom's strategic vision is any mention of sustainability, as indicated by their stated objective: "The strategic goal for PJSC Gazprom is to become the leader among the global energy companies through diversification of the sales markets, ensuring reliable supplies, performance improvement, use of scientific and research capabilities." However, the landscape shifted noticeably in 2018, with BP and Shell having initiatives in Phase 2. In this phase, a competitive edge emerges as companies recognize the tangible impact of sustainability on market demand. This competitive spirit can be observed in Shell's year report: "We were the first international oil and gas company to set an ambition using a measure which includes our customers' emissions (…)." Moreover, BP, Total and Shell demonstrated a heightened focus on influencing pricing dynamics, with all three companies actively lobbying for carbon pricing, believing it to be a pivotal driver for emission reduction and energy transition. These statements are motivated by the regulator Market. Furthermore, there was more movement towards Phase 2 motivated by the regulator Law, as both BP and Shell vocally expressed to fully support the Paris Agreement, indicating a deeper commitment to legislative cooperation and compliance.

3.3. Reflections 2019

From the communication published in 2019, it is evident that the majority of initiatives undertaken by the five companies transitioned into Phase 2, with exceptions observed in the case of Gazprom. Companies persisted in highlighting their competitive edge in sustainability, aiming to establish superiority over industry peers (regulator Market). For instance, Total underscored its achievement of having significantly reduced methane emissions, positioning itself as leader in environmental stewardship. A trend emerged wherein BP and Shell exhibited increased engagement with Phase 3 initiatives. Notably, a leadership change within BP catalyzed a cultural shift, driving an increase of Phase 3 initiatives. BP's CEO described both the moral and business imperative of increased sustainability when he stated that: "I think it is important to say that BP wants to change. Not only is it the right thing to do, it is a tremendous business opportunity for us". These types of statements can be attributed to the regulator Norms. In addition, Shell not only expresses intent but also undertakes tangible actions toward collaboration, exemplified by their founding membership of the Alliance to End Plastic Waste, emphasizing their commitment to addressing pressing environmental challenges.

3.4. Reflections 2020

Moving on to 2020, we consider Eni and Gazprom still in Phase 2. Gazprom is still very focused on competing on sustainability, apparent from the following quote: "Gazprom is a leader of the "Responsibility and Transparency" and "Sustainable Development Vector" indices of the Russian Union of Industrialists and Entrepreneurs". BP and Shell seem to have moved forward to Phase 3, with sustainability now fully integrated in their communication. For example, as BP states: "Collaborating can help us achieve our sustainability goals. It can involve (…) partnerships with cities and corporates to help them meet their decarbonization goals, shared initiatives to raise standards and set new sustainability benchmarks, and more (…)".

Promoting sustainability goals is motivated by the regulator Norms. Total also transitioned towards having initiatives in Phase 3, which follows from its participation in initiatives such as the Northern Lights project in Norway, a collaborative effort with Equinor and Shell aimed at decarbonizing industries reliant on fossil energy (regulator Norms). However, intriguingly, Total's stance occasionally reflected elements of Phase 1, adopting a somewhat passive approach and deflecting blame. This is exemplified by statements regarding their lack of control over indirect emissions, emphasizing the demand-driven nature of energy supply: "We do not have control over these indirect emissions. In energy, as with any commodity, demand typically drives supply, not the reverse." Also, these types of statements are motivated by the regulator Norms. Notably, all five companies significantly invested in pilots, technologies, and infrastructure, with architectural barriers no longer brought up as hindrances (regulator Architecture). Gazprom enhanced technological capabilities to reduce water consumption and GHG emissions. Similarly, ENI has increased investments in sustainable research and development, while BP has increased its sustainability investments by $250 million compared to the previous year.

3.5. Reflections 2021

In 2021 Shell communicates about initiatives that related to Phase 3: "We are also working with our customers and across sectors to help them find their own pathways to achieve net-zero emissions. This will help grow demand for new low-carbon products (…)". BP continues to navigate Phase 3 with a sustained focus on sustainability and collaborative efforts, although with a noticeable emphasis in this year's report on enhancing shareholder value and meeting market demands. Total's norm has shifted towards greater collaboration "Reduce the indirect emissions related to its products (Scope 3), together with society – i.e., its customers, its suppliers, its partners and public authorities – by helping to transform its customers' energy demand." This type of behavior of Shell, BP and Total is motivated by the regulator Norm. Changes are also motivated by the regulator Market is a shift, exemplified by initiatives aimed at reducing demand for non-sustainable options. For example, Total is reducing its sales of petroleum products to align with production by 2030, or around 1.4 Mb/d. ENI, while remaining in Phase 2, demonstrates an openness to collaborative ventures through alliances for sustainable development with diverse stakeholders including individuals, public entities, international organizations, civil society groups, and research institutions. Despite this, we consider ENI still in Phase 2 as they are passive in their approach where they allow for the adoption of various solutions at different speeds depending on the specifics of the multiple contexts and internal constraints. ENI's statements also refer to the regulator Architecture. The company claims that it depends on existing technologies: "This path, based mainly on existing technologies, will allow ENI to totally reduce its carbon footprint, both in terms of net emissions and net carbon intensity". Our units of analysis regard five Oil & Gas companies operating in Europe of which we have collected and analyzed publicly disclosed data that reflect their activities and transition plans over the period 2016-2022, hence starting with the book year after the 2015 Paris Agreement. In conclusion, while there are signs of heightened competitiveness and assertiveness in industry actions and communications, the overall trajectory indicates a positive momentum towards Phase 3 initiatives across the board. While this might be so for the mentioned companies, we could not yet analyze Gazprom's annual statements regarding 2021 as they could not be retrieved.

3.6. Reflections 2022

In the companies' statements published in 2022, the regulator 'Norm' has an even greater significance, particularly evident in the commendable shifts witnessed within Total and Gazprom. Gazprom, for instance, has embarked on a positive trajectory by prioritizing

sustainability within its operational framework. Notably, a noteworthy milestone was reached as over 8,000 Gazprom Group employees successfully completed environmental training programs (regulator Norms). Moreover, Gazprom's commitment to environmental protection was evidenced by a substantial investment of 89.1 billion in 2022. This yielded tangible results, including a 14% reduction in air pollutant emissions compared to the previous year. Despite these strides, we consider Gazprom in Phase 2 of its sustainability journey, indicating ongoing efforts towards further enhancement. Similarly, Total's transition to TotalEnergies marked a pivotal shift towards a more sustainable norm, exemplified by the publication of a sustainability report. TotalEnergies has now expressed to include sustainability in the core of their strategy (regulator Norm). Meanwhile, Shell and BP continue to be in Phase 3, showcasing a full integration of sustainability in their norms (regulator Norm). Both companies have become more actively engaged in political and regulatory dialogues, while also making notable advancements in their sustainability performance metrics. Shell, for instance, has taken proactive measures to empower customers in making sustainable choices, thus amplifying its impact beyond operational boundaries. In addition, BP has introduced a tool to assist employees in navigating complex decisions, aiming to accelerate the energy transition (regulator Market).

3.7. Overall reflections

In the hierarchy of industry dynamics, the sequence of movement aligns as follows, which is summarized in figure 1: Shell and BP lead the forefront, followed by TotalEnergies, ENI, and Gazprom. While the regulator Law has actioned the sector towards Phase 1, it is the interplay between the Norm and Market that dictates the pace. Since 2019, a shift occurred, underscoring the primacy of the regulator Norm as the principal driver of industry behavior. The role of Architecture proves to be more of a passive factor, as it was only used as an excuse in the beginning but did not hinder or influence the companies in later phases. It is the nuanced interplay between the regulator Norm and Market that ultimately shapes the speed and direction of the companies within the sector.

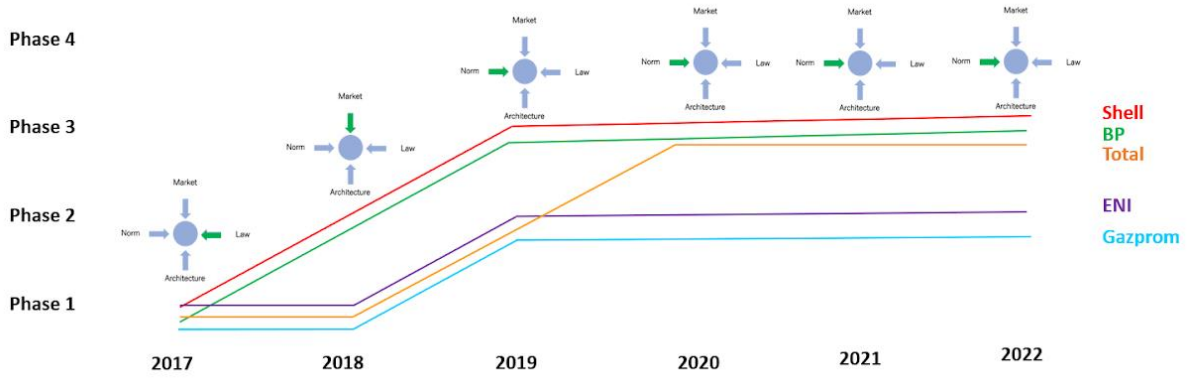

Figure 1: Summary of research findings

4. CONCLUSION

4.1. Relevance of our findings in relation to the sustainable market transition in the Oil & Gas sector

The study aimed to analyze if and how European Oil & Gas companies are transforming their sector to realize GHG reduction to support the 2015 Paris Agreement goals. Changes in a sector can be triggered due to several reasons and at different levels, for example new normative measures, innovations, or a changing discourse of what is right or wrong (Argyrou et al., 2022). Transformations develop through different phases, where each phase is part of a changing social system (SMTF). We applied the Simons & Nijhof SMT theory and SMTF.

To gather more rich knowledge into the behavior of Oil & Gas companies, we developed a case study approach (see Table 1.). Based on information published in the period 2017-2022, we collected relevant information about the ambitions, transition plans and activities of five Oil and Gas companies operating in Europe. We compared the collected information with the indicators of the four SMTF phases, analyzed their ambitions, transitions plans and activities and plotted each of the five companies per year in one of the SMTF phases. To gain insights in and to better understand the motivation of the selected companies to change their behavior, we used Lessig's Modalities theory (1998). We identified which of the four regulators — Law, Market, Norm, and Architecture — influenced the companies' behavior. This method contributed to our qualitative analysis on the question if and how European Oil & Gas companies are transforming their sector to support achieving the 2015 Paris Agreement goals. As demonstrated in figure 1, the regulator Law motivated the companies to move towards Phase 1, the regulators Norm and Market – and their interplay - influence the pace of the transformation of the market. The role of Architecture proves to be more of a passive factor: although the companies used arguments in this field as an excuse for not transitioning, we did not see those arguments in later years. We conclude that as of 2019, the regulator Norm appears to be the most effective driver to push Oil & Gas companies towards the next SMTF phase and the pace wherein this happens.

4.2. Relevance of our findings for the overall global sustainability transition

We selected the Oil & Gas sector as this sector is among the high-risk sectors as identified by the Taskforce on Climate-related Financial Disclosures (TCFD). The findings show that the sector is still far away from institutionalizing sustainability in daily operations. We noticed a stagnation in the transformation in 2020-2023. Referring to Lessig's Modalities theory, we recommend that strong influence be exerted by governments, other companies, civil society organizations to influence the cultural norms in the sector. The regulator Law can assist therein as Law can directly and indirectly drive the other three regulators, i.e. Norms, Market and Architecture. This might contribute to moving the sector towards the final phase in the SMTF. These findings can provide guidance to governments, companies, and civil society for real-world sustainable market transformations. Our study also deepened the conceptual understanding of the SMT theory by developing a research protocol that can be used by other researchers to examine other (high-risk) sectors and markets and/or the same sector over time.

4.3. Research limitations and suggestions for future research

Our findings indicated that several of the selected companies mentioned the need for a carbon tax in their annual reports. One of the indicators of the SMTF Phase 3 is the following: "(…) sustainability leaders begin to pressure governments to pass legislation and impose regulations. Sometimes companies want more regulation. They want a level playing field for the new game" (Changing the Game, pp. 69). However, we have not found any information on any lobbying activities by the companies against regulations. We could not assess if what is happening behind the scenes aligns with what is written in annual reports. This limits our findings. To gain deeper insights into the motivation of the oil & gas companies to move towards the next SMTF phase, we recommend future research. Such research could involve conducting a stakeholder analysis per case: which stakeholders have been key to moving the sector to the next level. However, such a study would be labor intensive and commercially sensitive for participating companies. Other topics for further research concern the questions: How could more collaboration between Oil & Gas companies look like? How can we act on opportunities together? How can European law push companies to move faster, even though they are operating in a global market?

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THE IMPACT OF ARTIFICIAL INTELLIGENCE ON ORGANIZATIONAL STRUCTURE TRENDS ANALYSIS AND IMPLICATIONS

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ABSTRACT

This paper explores the evolution and impact of artificial intelligence (AI) on contemporary business, from its inception to the present day, highlighting key milestones in development and a wide range of applications across various industrial sectors. Through an analysis of literary sources, theoretical considerations, and recent research, the paper demonstrates how AI transforms business processes, decision-making, innovation, and organizational structures, emphasizing its ubiquity and impact on efficiency, cost reduction, and the creation of new market opportunities. Concurrently, the paper addresses the challenges accompanying the implementation of AI, including ethical issues, privacy, data security, and the need for qualified professionals. Using a survey conducted among managers as an example, the paper provides insights into perceptions and attitudes towards the application of AI in business, showing general optimism towards the positive changes AI can bring, along with existing concerns about potential job losses and security risks. The research indicates widespread support for integrating AI into business processes, highlighting the need for ethical and responsible application. In conclusion, AI is identified as a key driver of change in the business world, with the potential to enable organizations to become more efficient, innovative, and competitive. Future progress and application of AI require responsible management and continuous adaptation of business strategies to maximize its benefits while minimizing potential risks and challenges. The paper emphasizes the importance of a balanced approach to integrating and regulating AI technologies as crucial for building a sustainable future in which AI serves the good of society.

Keywords: *Ethical Issues, Innovations, Organizational Culture, Organizational Structure, Business Process, Artificial Intelligence*

1. INTRODUCTION

Artificial Intelligence (AI), since its conceptualization at the Dartmouth Conference in 1956, has made a revolutionary shift in business, thanks to advances in technology, computing, and the availability of data. Throughout history, AI has experienced periods of great enthusiasm and periods of stagnation, known as "AI winters." However, the current era is characterized by the ubiquitous application of AI in various sectors - from the automation of customer services to the development of new products and predictive analytics. All of this enables organizations to improve efficiency, reduce costs, and create better customer experiences.

Despite the advantages, the implementation of AI also carries ethical dilemmas, privacy and security issues, as well as considerations about the future of jobs. Understanding the evolution and current trends in AI is crucial for maximizing its potential in the contemporary business environment.

2. OVERVIEW OF THE CURRENT APPLICATION OF ARTIFICIAL INTELLIGENCE IN BUSINESS

Thomas H. Davenport and Rajeev Ronanki, in their work "Artificial Intelligence for the Real World" published in the "Harvard Business Review" in 2018, provide a detailed insight into the practical application of artificial intelligence in business, covering aspects such as automation, enhancement of big data analysis, service personalization, and security applications. Furthermore, they explore how AI is transforming various industries and business functions and address challenges such as ethical issues and talent management. By examining recent research and applications of AI across different sectors, including customer service, big data analysis, automation, security, healthcare, marketing and sales, as well as manufacturing and financial services, Davenport & Ronanki (2018) highlight AI's potential to increase efficiency, improve decision-making, and create new market opportunities. Customer Service As Davenport and Ronanki (2018) highlight, chatbots and virtual assistants, powered by AI, are becoming more prevalent in customer services, providing quick and continuous responses to user inquiries. These technologies enable companies to reduce costs and improve the customer experience. Big Data Analysis AI tools, according to the same authors, capable of processing and analyzing large volumes of unsorted data allow companies to gain valuable insights and predictive analyses. This assists in informed strategic decision-making, identification of new business opportunities, and personalization of the customer experience. Sivarajah, U., Kamal, MM, Irani, Z., and Weerakkody, V. (2017) analyze challenges and methods of big data analytics, indicating how artificial intelligence technologies can assist in processing and gaining insights from complex data. Robotic Process Automation (RPA), according to Davenport and Ronanki (2018), utilizes AI to automate repetitive and time-consuming tasks, resulting in increased productivity and efficiency. Security and Surveillance Davenport and Ronanki (2018) state that AI plays a crucial role in modern security systems, enabling automatic recognition of data patterns or anomalies, which may indicate potential security threats or fraud. Healthcare In the healthcare sector, according to the same authors, AI aids in disease diagnosis with greater accuracy, personalized medicine, and optimization of patient management, contributing to better treatment outcomes and a more efficient healthcare system. Marketing and Sales AI is transforming marketing and sales strategies, enabling detailed market segmentation and targeting, content personalization, price optimization, and predictive analysis of purchasing patterns, according to Davenport and Ronanki (2018). Manufacturing In the manufacturing sector, Davenport and Ronanki (2018) further note, AI supports predictive and autonomous inventory management systems and optimizes supply chains and production processes. Financial Services Artificial intelligence algorithms are used for automating trading, risk management, fraud detection, and personalized financial services, providing a more efficient and customized customer experience. As Davenport and Ronanki (2018) emphasize, the implementation of AI can fundamentally change operational processes within organizations. The application of artificial intelligence in contemporary business shows considerable potential for transforming how companies operate and make decisions. As artificial intelligence technologies and techniques develop, the boundaries of its possible applications in business continue to expand. Despite the undeniable advantages, organizations also face challenges such as ethical issues, data security, and the need for highly specialized talents. In the coming years, the ability of organizations to innovate, adapt, and responsibly harness the power of artificial intelligence will be key to their long-term success and sustainability.

3. OBJECTIVE AND SIGNIFICANCE OF RESEARCH FOR THE BUSINESS SECTOR

Research in the business sector is crucial for improving strategic decision-making, enabling organizations to more effectively face market challenges, identify new opportunities, and reduce risks (Drucker, 2006). According to Drucker, the purpose of research is to base business decisions on analyses and reliable data rather than on guesses.

Drucker emphasizes that key contributions of research include:

- Informing decisions: Research provides key information that shapes business strategies, allowing organizations to make informed decisions based on a comprehensive understanding of market trends and consumer needs.
- Identifying opportunities and challenges: Market trend analysis enables early identification of potential growth opportunities and threats, encouraging a proactive approach to market changes.
- Optimizing products/services: Customer feedback and analyses allow for fine-tuning of offerings to meet actual customer needs and improve market position.
- Reducing business risks: Research provides insights that help in evaluating potential partnerships, markets, and investments, thereby reducing financial and operational risks.
- Encouraging innovation: In-depth insights gained from research can stimulate the development of new ideas and solutions, empowering the organization in a dynamic business environment.
- Evaluating performance: Methodical measurement of strategy and campaign performance enables continuous improvement and orientation towards efficiency.

The significance of research for the business sector is based on its ability to enhance decision-making, innovativeness, and competitive advantages, without which it is difficult to maintain relevance in a rapidly changing economic environment. Treating research as an integral part of business strategy is crucial for achieving long-term success and sustainability (Drucker, 2006). The application of AI in a business context, how AI can transform various aspects of business from operations to customer services and decision-making, is analyzed by Akerkar, R. (2019). He discusses key AI technologies and tools, such as machine learning and natural language processing, and their role in creating competitive advantages in business.

3.1. Theories of Artificial Intelligence Relevant to Business, Historical Evolution, and Application in Business

According to Brynjolfsson & McAfee (2014), AI theories that are key to business include decision theory, game theory, machine learning, and optimization. AI tools support decision-making through the analysis of big data, modeling strategic situations using game theory, developing predictive models with machine learning, and optimizing processes to increase efficiency. As Brynjolfsson and McAfee explain, the historical development of AI encompasses:

- Early Beginnings (1950s – 1970s): The inception of AI, focusing on fundamental algorithms and game theory, aimed at automating simple tasks.
- Development and Adaptation (1980s – 1990s): The era of expert systems, with applications in finance and healthcare.
- Internet Era (2000s): AI gains momentum through the internet, big data analytics, and enhanced automation.
- Big Data and Deep Learning Era (2010s): With the advent of deep learning, AI transforms industries with more advanced automation and intelligent solutions.

In the contemporary business environment, AI has become ubiquitous, enabling organizations to achieve better analyses, predictive models, and optimized operations for competitive advantages (Brynjolfsson & McAfee, 2014). Lucca, S. & Kopec, D. (2016) offer a comprehensive view, including the history, key concepts, technologies, and applications of AI, presenting futuristic perspectives on how AI will shape the future of work, education, healthcare, and daily life, along with the research potential of AI to solve some of humanity's greatest challenges. Rose, D. (2018) focuses on the practical application of artificial intelligence in the business environment, particularly through machine learning and neural networks, and how it can help entrepreneurs gain a competitive edge.

3.2. Overview of Recent Research on Artificial Intelligence in Business

Recent research on artificial intelligence (AI) in business is focused on the following areas (Lee, 2018):

- Automation and Efficiency: Research demonstrates how AI can significantly increase operational efficiency, reduce costs, and improve task execution timelines.
- Service Personalization: Analyses in the marketing and sales sector highlight AI's ability to enable a high degree of personalization in customer interaction, leading to increased customer satisfaction and loyalty.
- Predictive Analytics: A large number of studies concentrate on AI's application in predictive analytics, allowing companies to anticipate market trends and consumer behavior with high precision. Siegel, E. (2013) explores the power of predictive analytics and its applications across various industries for forecasting behavior and making informed decisions.
- Risk Management: According to Lee (2018), AI is increasingly used in the financial sector for risk assessment and management, as well as fraud detection, offering faster and more accurate analyses compared to traditional methods.

As Lee (2018) further points out, these trends are accompanied by an increasing adoption of AI technologies in various business sectors, indicating a profound and lasting impact of artificial intelligence on modern business operations. Although the benefits are significant, research also highlights challenges such as ethical issues, data security, and the need for continuous workforce training.

3.3. The Impact of Artificial Intelligence on Business Process Transformation and Organizational Structure

Agrawal, Gans, & Goldfarb (2018), in their book "Prediction Machines: The Simple Economics of Artificial Intelligence," focus on the economic impact of artificial intelligence, considering it as a technology that significantly reduces the costs of prediction, a fundamental component of business decision-making. The authors explore how this reduction in prediction costs changes corporate strategies, market structures, and the overall economic dynamic, emphasizing the importance of adapting to the new conditions created by advancements in AI. They also highlight that AI not only brings opportunities for increased efficiency but also challenges such as the need for new skills, regulations, and ethical guidelines. Their work thoroughly analyzes how the reduced costs of prediction, enabled through AI, transform business models and processes. According to Agrawal, Gans & Goldfarb (2018), AI is a key driver of change in the business world, affecting operational processes, innovation, and organizational structures. By implementing AI technologies, organizations achieve greater efficiency and better adapt to rapid and competitive markets. This overview illuminates how AI is changing the way businesses operate and are organized. Digital technologies, including AI, transform business processes, industries, and the labor market.

They consider key aspects of how AI changes the way companies operate and make decisions, focusing on innovations, automation, and the socio-economic changes accompanying these technological shifts. Furthermore, when discussing the transformation of business processes, Agrawal, Gans & Goldfarb highlight the following: the application of AI increases productivity and reduces the likelihood of errors, thus improving service quality. In the financial sector, automation through AI shortens the processing time for credit applications, while algorithmic trading enables more efficient trading decisions based on market data analysis. When talking about risk management and innovations, Brynjolfsson & McAfee note: AI enables the analysis of large amounts of data to identify risks and marketing trends before they become apparent, encouraging the development of innovative approaches and new market opportunities. Regarding the impact on organizational structure, Brynjolfsson & McAfee state that the implementation of AI can lead to a reduction in hierarchical levels within organizations, providing greater participation in decision-making across different managerial levels and promoting the development of more agile organizational models. On social responsibility and adaptation, Erik Brynjolfsson and Andrew McAfee highlight that organizations with codes of social responsibility that include ethical use of AI technologies show concern for employees and encourage the development of new skills among staff that may become redundant due to automation. Regarding systematic learning and cost optimization, the same authors mention that AI encourages the development of efficient organizations through continuous analysis and adaptation, reducing operational costs and increasing resource utilization efficiency. The impact of artificial intelligence on business and organizational structure encompasses multiple aspects, from improved efficiency and innovativeness to ethical and social considerations. Responsible implementation and adaptation of AI technologies are crucial for optimizing organizational performance and achieving long-term success in a dynamic business environment, say Agrawal, Gans & Goldfarb (2018).

3.4. Challenges and Limitations

As Daugherty and Wilson (2018) point out, the introduction of AI in business is accompanied by a series of challenges that require detailed preparation and a strategic approach, including:

- High implementation costs: Initial investments in AI systems can be significant, posing a financial challenge, especially for small and medium-sized enterprises.
- Lack of experts: There is a global scarcity of qualified AI experts, making it difficult to hire the necessary talent to manage and implement AI projects.
- Privacy and ethics issues: The use of AI to collect and analyze data raises questions about user privacy and ethical dilemmas, necessitating careful handling of information.
- Resistance to change: The changes brought about by AI can cause caution or resistance among employees and management, mainly due to the fear of technology replacing human labor.

To overcome these obstacles, Daugherty and Wilson recommend developing a strategic approach that includes educating and persuading stakeholders of the benefits and ethical applications of AI, as well as investing in the development of human resources and alleviating fears related to automation. According to the same authors, understanding and properly managing these challenges are key to harnessing the potential of AI in business and maintaining a competitive edge. Anderson and Anderson (2007) in their research address the development and application of ethical principles within AI, exploring how machines can make moral decisions. This involves integrating ethical principles into the design and functionality of AI systems, working on enabling AI systems to recognize and evaluate ethical dilemmas, and make decisions that are in line with accepted moral norms.

3.5. A Turning Point in Artificial Intelligence Technology: The Global Race, The Future of Work, and the Quest for the Master Algorithm

According to Lee (2018), the global race in AI technology, particularly between China and the United States, marks a turning point where China challenges American dominance, setting the stage for a new global order in technology. Kai-Fu Lee highlights China's progress thanks to its abundance of data, strong government investments, and a flexible technological ecosystem. He emphasizes potential challenges, such as the impact on the labor market and the need for ethical considerations in AI development, pointing to the importance of international cooperation. Tegmark (2017), in his work "Life 3.0," encourages reflection on the moral dilemmas and long-term perspectives brought by AI, exploring scenarios from apocalyptic to utopian. The focus is on the importance of adopting global norms that will ensure beneficial AI development for all. Domingos (2015) contemplates the idea of a "Master Algorithm" — the ultimate machine learning algorithm that could learn anything necessary from any data. He suggests that such an algorithm could revolutionize many aspects of our lives, from medicine and education to the way we do business. According to Daugherty and Wilson (2018), the future of work lies not just in automation but in collaboration between humans and machines, where AI intelligence complements human creativity, empathy, and strategic thinking, paving the way for more innovative and productive business models. Siegel (2013) discusses how predictive analytics uses data for more informed decisions across various industries. Meanwhile, Goodfellow, Bengio, and Courville (2016) explore the technical aspect of deep learning and its impact on different sectors, underlining the importance of responsible development of AI technologies.
Through these works, the depth and scope of AI technology are revealed, from its global race to ethical and social implications, highlighting the importance of collaboration, innovation, and a responsible approach in shaping the future with AI.

4. RESEARCH - HUMAN OPINION ON THE APPLICATION OF ARTIFICIAL INTELLIGENCE IN BUSINESS

Artificial Intelligence, a technological term that has been the subject of debate over the past decades, is increasingly permeating our daily lives through digital assistants, autonomous vehicle prototypes, and robots performing tasks instead of humans. This technology represents one of the most exciting and potentially most influential achievements in history. The research was conducted through an online survey sent to the addresses of managers of 120 companies, with 70 of them responding. The questionnaire consisted of about 15 questions that required approximately 10 minutes to complete. Responses were in the form of YES/NO, with precisely defined answers to the questions. Participants had the opportunity to express their opinion if none of the provided answers matched their views. When asked if they would use AI in business in their own company or organization, 80% responded affirmatively, 15% would consider it, while the remaining 5% said they would not use AI in the business of their own company or organization. When asked if they feel safer with some level of control over the AI they use, 89% of respondents answered affirmatively, while 11% feel safe regardless of the presence of that control. Regarding the impact of AI on society, the majority of respondents (56.4%) expressed an optimistic stance, stating that society would become better with its application. However, 25% of respondents believe the situation would worsen. The rest of the respondents either do not know or dare not predict the outcome. On the potentially dangerous aspects of AI for society, 59% of respondents believe the development of this technology could be dangerous. Regarding the impact on the labor market, 74.7% of respondents believe the implementation of AI will result in a reduction of jobs for humans, while 25.3% believe the opposite. It's important to note that respondents view this trend as negative, not positive. Interestingly, although most respondents express a negative attitude towards autonomous AI systems, they simultaneously believe their application in business is positive.

As much as 79.1% of respondents see the implementation of such systems as beneficial, while 21.9% believe otherwise. Regarding setting boundaries and limitations for autonomous AI systems to prevent the exploitation of their weaknesses to improve the market position of companies, the majority of respondents (90%) believe it is necessary. The rest either do not think it is necessary or have no defined stance on it. When respondents considered which industry would benefit most from integrating AI into business, the largest share of them, as much as 76%, expressed confidence that it would be the automotive industry. This is followed by medicine and the pharmaceutical industry with support from 68%, transportation with 32.1%, and metallurgy with 29.8%, while the business and economy sector is only in fifth place with support from 24.6%. The majority of respondents, 93%, believe AI is excellent at processing and analyzing large amounts of data, thus contributing to the business process. Regarding the acceptance of AI recommendations to achieve business goals, the majority of respondents (58%) expressed readiness to accept such suggestions. A minority (7%) are not inclined to do so, while the rest of the respondents (35%) would consult with human colleagues before making a decision. Regarding responsibility in case the AI system makes a mistake with negative consequences, most respondents believe the responsibility lies with the people who designed the artificial intelligence system. The next most common answer was that no one is to blame or that such situations cannot be anticipated. The next question was posed to investigate whether respondents would accept AI that goes against the business practices and ethical values that the organization promotes. The majority of respondents, 66.3%, stated they would not accept such a proposal. A smaller percentage, 12.1% of respondents, said they would accept an AI proposal that brings business benefits, despite ethical shortcomings. Other responses, such as "I don't know" or "I would consider the proposal with human colleagues", were given by 10.8% of respondents. Regarding the time it will take before AI has a significant impact on everyday life, the majority of respondents - 35%, feel we are already experiencing this impact today. In the next 5 years, as much as 71% of respondents believe the impact will be even more pronounced. Over 5 years, 100% of respondents believe AI will have a significant impact on everyday life. When it comes to preferred methods for processing and storing data in business, the majority of respondents, 51%, prefer cloud solutions over local data storage. We identified three most frequently mentioned risks related to designing and using AI and asked respondents about their concerns regarding these scenarios. In first place, 78.3% of respondents expressed concern about the possibility of hacking AI and the loss of a significant amount of personal data. Then, 54.2% of respondents expressed concern that AI could become more intelligent than humans. Finally, 31.3% of respondents expressed concern about the possibility of AI systems becoming unreliable and not delivering consistently accurate results. It's interesting to note that respondents expressed greater concern about the potential intelligence of artificial systems over humans, implying complex implications and potential changes in society, in contrast to concerns about unreliable systems not delivering accurate results. This research provides significant insights into managers' perceptions and attitudes towards AI and its implications in the business sphere. The majority of research participants express a willingness and enthusiasm for integrating AI into business processes, recognizing the potential advantages this technology can bring in terms of operational efficiency, data analysis, customer experience, and competitive advantages. Security and control are key components of AI perception, with most respondents preferring a certain degree of control over AI systems to feel safer. This underscores the importance of developing security protocols and ethical guidelines for managing AI. Although there is general optimism about the positive changes AI can bring to society, there is significant concern about potential job losses and security risks, such as hacking AI systems. This underscores the need for careful consideration of the social and ethical implications of integrating artificial intelligence into business and social structures.

Surprisingly, despite expressed concerns regarding autonomous systems and their potential dangers, most managers see the benefit of their application in business. This underscores the belief that technological progress and innovations outweigh potential risks, provided they are properly managed and regulated. Given the growing impact of AI on various industries, most respondents believe that fields such as the automotive industry, medicine, and transportation will benefit from integrating AI. This indicates the intersectoral nature of AI, where its potential is not limited to specific sectors but offers broad opportunities for innovation and improvement. Furthermore, AI's competence in analyzing large amounts of data is recognized as a key advantage, enabling better informed and faster decision-making. However, managers' willingness to accept suggestions and recommendations from artificial intelligence, with human consultation, highlights the importance of synergy between human intuition and machine analysis. This research clearly indicates the dual nature of AI - as a source of great opportunities and potential risks. A balanced approach to AI integration and regulation will be key to exploiting its benefits while minimizing ethical and security challenges. As technology advances, responsible use and continuous oversight will be essential for a harmonious coexistence of man and machine, ensuring that the future shaped by AI is inclusive, safe, and serves humanity. The research findings on the impact of AI on business can be summarized in the following points: Adaptability to change: AI enables organizations to adapt faster to changes in the business environment, enhancing their agility and ability to respond quickly to market challenges. Reducing conflicts: The implementation of AI can lead to a reduction in internal conflicts within organizations through improved communication and objective analysis. Strengthening organizational culture: AI contributes to the promotion of shared values and goals, empowering organizational culture. Shortening business processes duration: AI efficiently shortens the time required to perform various tasks, increasing productivity. Reducing hierarchy: The use of AI in business encourages a more even distribution of responsibility and decision-making, reducing the need for strictly hierarchical structures. Easier implementation: Companies practicing codes of social responsibility, particularly in relation to care for workers, more easily integrate AI, demonstrating ethical application of technology. Greater flexibility: AI technologies allow organizations to be more flexible, easily adapting to changes and new market requirements. Systemic learning of the organization: AI fosters the development of learning organizations through continuous data analysis and feedback, leading to innovations. Reducing costs: Process optimization enabled through AI leads to significant reductions in business costs, including resources such as materials, people, time, and finances. Greater participation in decision-making: The use of AI promotes greater employee involvement in the decision-making process at all management levels, encouraging more inclusive business practices. These conclusions reflect the key impact of artificial intelligence on modern business, emphasizing its role in building more efficient, flexible, and inclusive organizational structures.

5. CONCLUSION

Within the scope of this work, an in-depth analysis of the impact of AI on contemporary business has been conducted, exploring how AI can be applied to enhance operational processes, innovations, decision-making, and the optimization of organizational structures. Based on a review of literature, recent studies, and theoretical considerations, it has been observed that AI represents a key driver of change within business organizations, affecting their ability to adapt and evolve in a fast and unpredictable market environment. In conclusion, AI offers a broad spectrum of opportunities for organizations, enabling them to optimize their operations, enhance customer experience, reduce costs, and drive innovations. Its ubiquity and growing impact on various business sectors signal a transition towards a technology-led business model where adaptability, responsibility, and innovation are key to success.

However, alongside the numerous advantages, the introduction of AI also brings challenges such as ethical issues, the need for highly skilled experts, data security, and employee resistance to change. Overcoming these challenges requires a strategic and ethical approach, with an emphasis on policy development, employee education, and continuous adjustment of business strategies to maximize the benefits of AI technologies. Further research and investigative work on the topic of AI technologies are essential for advancing our understanding of its potential impact on business and society as a whole. As the technology develops, so will its applications expand, offering new opportunities for growth and innovation. The future is open for organizations that are prepared to embrace AI and explore its possibilities, but it also demands responsible application and consideration of the socio-economic implications of its integration. In the final analysis, it must be emphasized that artificial intelligence does not represent an ultimate goal but a tool that, if properly utilized, can enable organizations to achieve their objectives more efficiently, responsibly, and innovatively. Aligning technological innovations with the human factor, ethical standards, and strategic objectives is crucial for building a sustainable future where AI serves the good of the entire society.

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ORGANIZATIONAL CHANGE IN CULTURAL CONTEXT: EMPLOYEE PARTICIPATION

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ABSTRACT

In the modern business environment, changes in the organization are not a matter of choice but imperative. However, we have witnessed that a large proportion of changes in organizations do not achieve the desired goal. The causes of failure are various, however, in scientific circles, the unwillingness of employees to accept changes is the most discussed. Is that always the case? Are employees even given the chance to participate in the preparation and implementation of the change? The aim of this paper is to investigate to what extent employees in Croatian companies participate in change projects in their organizations, is this participation different in private and public sector, does length of employment affect level of participation and does continuous change predict level of participation. For this purpose, a survey was conducted, which included employees of public and private companies in the Republic of Croatia. The obtained data were analysed using non-parametric statistics, which included descriptive statistics, correlation, and regression. The results of the research showed that employees are regularly informed about the upcoming change, understand the reasons for the change and the goals they want to achieve with it. On the other hand, there is a lack of active employee participation which is reflected in the fact that they are not expected to take a stance on concrete change, let alone an activity aimed at improving business. Furthermore, employees in private companies enjoy a higher level of participation than employees in public companies. Continuous changes are related to the high level of participation. The length of employment does not affect the level of participation.

Keywords: *Organizational change, Employee participation, Continuous change, Croatia*

1. INTRODUCTION

In the modern business environment, changes are part of everyday life. They affect all organizations and all individuals. Changes are not something that can be avoided, they must be faced. In other words, changes are internal response to the external conditions (Jasińska, 2020).Many organizational changes failed due to employee's resistance. The cause of resistance was dominantly the lack of involvement in the change process (Awdari and Kanwal, 2019). Stanleigh (2008) stated that "the majority of change implementation strategies fail because the organization's management does not engage employees in the development process and do not allow adequate time for change to set". Involvement of employees is a crucial for the successful implementation of any change project. For Awdari and Kanwal, (2019) "some of the reasons for the failure in the change strategy can be lack of communication across the board, failure in defining the objectives of the need for the change, inexperience in the scope and complexity, technical issues and project management issues."

The aims of the paper are to investigate following:

- To what extent employees in Croatian companies participate in change projects in their organizations?
- Is this participation different in private and public sector?
- Does length of employment affect level of participation?
- Does continuous change predict level of participation?

The data for this study were gathered via questionnaire in a sample of Croatian employees and were analysed through nonparametric statistics using statistical package SPSS 25.0. This paper consists of following parts: introduction, literature review, methodology, results, discussion and conclusion, and references.

2. LITERATURE REVIEW

There is a wide amount of research papers dealing with organizational change. Kurt Lewin (1951) laid a cornerstone in the field of organizational change research. He stressed that the "implementation should be grouped as the unfreezing, moving and refreezing stages" (Lewin, 1951). Later, a more complex model was introduced, a five-phase process of change implementation which consisted of: "analysing and planning for the change, communicating the change, gaining acceptance of new behaviours, changing from status quo to the desired state, consolidating and institutionalizing the new state" (Judson 1991). Jick (1993) made a distinction between planned or unplanned organizational and added that both types of change can contribute to pressures and forces from both the internal and external environment of an organization. Organizational change may take many forms. Hiatt and Creasey (2003) explained that it can vary in duration, and this can influence the functioning of an organization either in parts or the complete organization. Change can also vary in intensity which can lead to small or incremental modifications (Awdari and Kanwal, 2019). Change may involve the whole organization or just individual level. It may cover whole management system or one element (financial, technical, or social sub element). It may take form of strategic or operational changes (Czermiński et al. 2016). Masłyk-Musiał (2013) divides change into two types: evolutionary and revolutionary. Evolutionary change is applied on existing state which is trying to improve. Revolutionary change is an attempt to create something new. Changes may be triggered inside organization or outside organization. Those that are encouraged inside organization are especially important for the organization because they come from the employees' knowledge and experience. Usually, knowledge and experience accumulate over time. Jasinska (2020) gave special attention to direct participation. It can appear as the passive form of employees' "right to information" and as active form, employees' right to object, consent or joint resolution. Mumtaz et al. (2024) have proven that perceived organizational support as well as human resource climate positively influence employee participation. Additionally, employee participation has positive impact on leadership excellence. Currently digital transformation is the on of the most frequent changes in many organizations. In that context Ullrich et al., (2023) determined three main goals of participation that are knowledge exchange, job satisfaction and transformation acceptance. Participation through communication is a vital for obtaining commitment to change as well as adequate organizational climate. Involvement-oriented climate positively affects affective commitment to change, mediated through quality change communication (Rogiest, Segers and van Witteloostuijn, 2015). On the other hand, participation in change process facilitates learning on individual and organizational level (Valleala et al., 2014). There is a general agreement that "employees who have experienced poor change management in the past are more likely to resist new changes" (Fuchs and Prouska, 2014). However, change perception could be improved by organizational support and change participation. More specifically, Fuchs and Prouska (2014) proved mediating role of change participation on the relationship between perceived organizational support and change evaluation from one side; and relationship between supervisor support and change evaluation from the other side. Several studies investigated participation in public organizations. For example, Lebesby and Benders (2020) conducted a survey among Norwegian public organizations. Initial assumption was that all employees, regardless to which sector they belong, were willing to participate in change.

However, the results have pointed to a conclusion that many employees did not want to involve themselves in change projects for rational reasons such as: lack of time and resources, need for overtime work, improvement assignments were beyond job description, older employees were satisfied with current situation and there was no reward for extra work.

3. RESEARCH METHODOLOGY

For this study, questionary research was obtained. The questionary was structured using adapted version of verified questionnaire of (Bouckenooghe, Devos and Van Den Broeck, 2009).The questionnaire consisted of two parts. The first part contained sociodemographic characteristics of the respondents: gender, age, educational level, years of employment. The second part contained seven items. Five of them are related to employees' participation in the change process, one is sector and the last is continuous change (Table 1).

Code	Variables	Measurements
PINF	Participation information	1 – 5 Completely disagree (1) Completely agree (5)
POPIN	Participation opinion	
PREAS	Participation reasons	
PGOAL	Participation goals	
PREW	Participation reward	
SEC	Sector	Private (1) Public (2)
LE	Length of employment	Less than 5 (1) 6 – 10 (2) 11 – 20 (3) 21 and more (4)
CC	Continuous changes	No (1) Yes (2)

Table 1: Variables and measurements
(Source: Authors)

Participation items are constructed as follows: „Corporate management team keeps me informed about change decisions", "Corporate management team usually asks for my opinion regarding a planned change", "Corporate management team explains the reasons for change", "Corporate management team explains the goals of change" and "Corporate management team gives reward for good implementation suggestions". The measurements for sociodemographic characteristics age and length of employment given in intervals, thus gender and educational level are nominal variables. For evaluation of the participation variables in the second part of the questionnaire a five-point Likert scale was used. The scale was constructed as follows: 1-strongly disagree, 2-disagree, 3-neither disagree or agree, 4-agree and 5-strongly agree. Variable sector is a nominal one and measured as 1-private and 2–public. Continuous change is a dummy variable and is measured as 1–no and 2–yes. Statistical analyses were performed using SPSS 25.0 software. Quantitative variables were described by the mean and standard deviation. Correlation between variables was determined with Pearson's coefficient. Participation items are analysed separately. There are two reasons for that decision. The first, Cronbach alpha is below 0.7. The second reason is determination to get more detailed conclusions.

The last step of the analysis is hierarchical linear regression analysis to investigate could sector, length of employment and continuous change be predictor for eny type of employees' participation in organizational change.

4. RESEARCH RESULTS

Total amount of valid questionnaires received is 153. The sample consists of 56.21% of men and 43.79% of women. The baggiest share of the respondents (27.45%) belongs to the so called "middle generation" in the range between 35 and 44 years, then follows a group between 24 and 34 years (24.18%). Share of 21.57% of the sample is between 45 and 54 years old. Little more than 15% of respondents is younger than 25 years and 11.76% of them are 55 and older. The respondents in this sample have different levels of education. Almost 38.6% of them gained graduate level, 33.99% finished high school, 20.26% obtained undergraduate level and even 7.19% had Master of Science or PhD degree. A third of the respondents stated that have from 11 to 20 years of work experience. A little more than a quarter (26.14%) worked less than five years. A little less than a quarter (24.84%) were employed from six to ten years, and 15.69% worked for 21 years and more. More than half of respondents (54.2%) work in private sector.
Wast majority of the respondents is informed about intention of introducing changes in the organization (mean = 4.12, SD = 0.928). Just little more than 20% of them strongly disagree or disagree with the statement. Almost opposite situation is noted with asking employees for the opinion about change process (mean = 2.91, SD = 1.54). About 60% of the respondents are never or almost never asked for the opinion from their supervisors. Employees in Croatian organizations are generally informed about reasons of the incoming change (mean = 3.88, SD = 2.18). About 52% of them agree or strongly disagree with the statement about receiving reasons for change from the supervisors. Additionally, the organizational change goals are generally explained to Croatian employees by their supervisors (mean = 4.01, SD = 1.29). Almost 55% of respondents agree or strongly agree with receiving organizational change goals. Regarding rewards for good business improvement suggestions, results indicate the absence of rewords for improvements (mean = 2.71, SD = 1.49). Only 18% of respondents reported existence of such rewards in their organizations. Amount of 54.9% of respondents stated that in their organizations are performed on regular basis (continuously). The next step of the statistical analysis is determination of correlation between variables (Table 2) using Pearson's coefficient of correlation.

	PINF	POPIN	PREAS	PGOAL	PREW	SEC	LE	CC
PINF	1							
POPIN	0.256	1						
PREAS	0.380**	0.488**	1					
PGOAL	0.496**	0.226	0.422**	1				
PREW	0.067	0.260	0.418**	0.128	1			
SEC	-0.159	-0.421**	-0.206	0.043	-0.226	1		
LE	-0.118	-0.184	-0.202	-0.120	-0.031	0.300*	1	
CC	-0.026	0.313*	0.118	0.113	0.066	-0.016	-0.144	1

Table 2: Correlation matrix
**p < 0.05, **p < 0.01*
(Source: Authors)

The results in correlation matrix indicate several facts. There is significant mediocre and positive correlation between some variables of participation. That is not surprising since Cronbach alpha is 0.68 which indicate a certain level of internal consistency.

There is a significant and positive correlation between PINF and PREAS ($r = 0.380$, $p < 0.01$) and between PINF and PGOAL ($r = 0.496$, $p < 0.01$). Furthermore, there is a significant and positive correlation between POPIN and PREAS ($r = 0.488$, $p < 0.01$). Finally, there is a significant and positive correlation between PREAS and PGOAL ($r = 0.422$, $p < 0.01$) and between PREAS and PREW ($r = 0.814$, $p < 0.01$). Considering correlation between participation variables and potential predictors, we found two significant relations. There is a significant and negative correlation between POPIN and sector ($r = -0.421$, $p<0.01$) and positive between POPIN and continuous change ($r = 0.313$, $p < 0.05$). although it is not in the focus of the paper it is worth to mention a significant and positive correlation between sector and length of employment ($r = 0.300$, $p < 0.05$). Further phase of the statistical analysis is performing hierarchical linear regression having in mind only significant relations (Table 3). Therefore, hierarchical linear regression model consists of POPIN as a dependent variable and sector and continuous change as independent (predictor) variables. The advantage of the hierarchical regression is getting specific relative contribution of each predictor to dependent variable. It was performed in two steps. In the first step predictor sector is included in the regression. In the second step both predictors are included in the regression.

	Step 1	Step 2
Predictor	SEC	SEC+CC
R2	0.188	0.282
R2 change	0.188	0.094
F change	9.116	6.118
Sig. F. change	0.002	0.017

Table 3: Regression analysis summary (Source: Authors)

Regression analysis results detected negative impact of variable sector on the POPIN (beta = -0.513, sig. = 0.002). Relative contribution to the POPIN variance is 18.8% ($R^2 = 0.188$, sig. F. = 0.002). After adding continuous change in the regression, coefficient of determination is much higher ($R^2 = 0.282$, sig. F. = 0.017). that means that dependent variable POPIN is better explained with both predictors included. The impact of continuous change on POPIN is positive (beta = 0.302, sig. = 0.017). Relative contribution to POPIN is 9.4% (R^2 change = 0.094) The impact of variable sector in step 2 is still negative, although slightly smaller (beta = -0.507, sig. 0.001).

5. DISCUSSION AND CONCLUSIONS

This paper provides valuable insights upon Croatian employees' participation in organizational change process. To fulfil research goals, questionary research was preformed among employees in Croatian organizations. Considering employees' participation in organizational change, one could distinct two basic types of participation; passive and active. Passive participation arises from one-way communication, usually on top-down direction where employees have no active role in the change process. On the other side, there is active participation based on two-way communication and/or action. Research results point to a conclusion that Croatian employees passively participate in organizational changes. Usually, they are given filtered information about change from their supervisors. The biggest share of employees receives only information about incoming change, and they are expected just to follow instructions. Slightly smaller number of employees understand the aims of the change. Knowing the aims helps mobilization of the staff and facilitate cooperation in the change project. Moreover, employees are frequently given the reasons for introducing changes. If the reasons for change are explained well, the readiness for change will increase.

Speaking about active participation in organizational change, this study provided discouraging results. Employees are rarely asked for their opinion when introducing a change. Furthermore, they are rarely rewarded for their suggestion of improvement. From this it can be concluded that the managers of Croatian organizations do not sufficiently motivate their employees to participate more actively in the change process. This fact is surprising, since most respondents stated that their organization preform continuous changes and such type of change demands more active participation from all individuals who will be affected by this change. Statistical analysis has shown the existence of the relationship between form of participation through giving opinion about change and predictors sector and continuous change. Managers of private sector organizations more often seek opinion from their subordinates. Organizations in the private sector are more exposed to market mechanisms than public ones and do not enjoy state support. Employees in public sector are less active in organizational change incentives which is in line with Norwegian study (Lebesby and Benders, 2020). Therefore, such managers are very interested in using all available resources, including the knowledge and skills of their employees. Continuous improvements are proven to be a good predictor of participation through giving opinion about change. However, length of employment is not significant predictor for any type of employee's' participation. In other words, level of participation is not related with the length of employment. This paper emphasizes the managers' need to involve their employees in organizational change process more to reduce resistance to change. Namely, resistance to change may be consequence of understanding reasons for change and change goals that cause fear from the employees' perspective. This paper has some limitations. The sample size is relatively small so generalization should be taken with caution. Further study should involve another predictor like company size, belonging to service sector or salary. The contribution of this study is the formulation of strategies, procedures and programs that should consider the inclusion of employees as a valuable social capital in the design and planning of any organizational change.

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ARTIFICIAL INTELLIGENCE'S POTENTIAL IN ENHANCING HOSPITAL PERFORMANCE

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ABSTRACT

Artificial intelligence (AI) has emerged as a powerful tool with the potential to significantly improve hospital performance, including economic indicators. This review explores various ways AI can contribute to increased revenue, reduced costs, improved resource utilization, and enhanced financial health. Real-world examples showcase its application in revenue optimization, cost reduction, efficiency management, and financial solvency. However, attributing specific numerical results solely to AI implementations is challenging due to complex integrations, multifaceted performance measures, and variations in study designs. While concrete examples from Croatia are currently limited, the growing interest in AI within the Croatian government and academic research suggests future potential for its widespread adoption and impact on hospital performance in the country. As the field evolves, further research and transparency can solidify AI's role in revolutionizing healthcare economics.

Keywords: *Artificial Intelligence, Cost Reduction, Economic Indicators, Hospital Performance, Revenue Optimization*

1. INTRODUCTION

The healthcare landscape is undergoing a significant transformation as artificial intelligence (AI) emerges as a powerful tool for improving hospital performance. While traditionally, hospital success has been measured by factors like patient outcomes and quality of care, economic indicators are also crucial for long-term sustainability. This presentation delves into the exciting potential of AI to revolutionize hospital economics, exploring how it can optimize revenue, minimize costs, and ultimately enhance the financial health of healthcare institutions. Through real-world examples and ongoing research, we will unveil the ways AI is poised to shape the future of hospital performance, paving the way for a more efficient and financially sound healthcare system.

2. BASIC ECONOMIC INDICATORS OF HOSPITAL PERFORMANCE

Here are some basic economic indicators used to assess hospital performance (Caballer-Tarazona et al., 2010):

Table following on the next page

Indicators	Explanation
Revenue and Expenses	**Total operating revenue:** This measures the total income the hospital generates from various sources, including patient care services, government funding, and insurance payments
	Total operating expenses: This measures the total cost incurred by the hospital to operate, including personnel costs, supplies, medications, and facility maintenance
	Operating margin: This is calculated as (Total operating revenue - Total operating expenses) / Total operating revenue. It indicates the percentage of revenue remaining after covering operating costs and reflects the hospital's profitability.
Efficiency and Resource Utilization	**Average length of stay (ALOS):** This measures the average number of days a patient remains admitted to the hospital. A lower ALOS can indicate efficient patient care and resource utilization.
	Case mix index (CMI): This takes into account the complexity of cases treated and adjusts the average revenue per patient based on this complexity. It helps compare hospitals with different patient mixes.
	Labour cost as a percentage of total cost: This indicates the proportion of the hospital's budget spent on personnel, highlighting potential areas for cost optimization.
Financial Health and Solvency	**Current ratio:** This measures the hospital's ability to meet its short-term obligations (due within a year) by comparing its current assets (cash, inventory) to its current liabilities (accounts payable).
	Debt-to-equity ratio: This measures the hospital's financial leverage by comparing its total debt to its shareholders' equity. A higher ratio indicates a greater reliance on debt financing, which can be risky.

Table 1: Basic economic indicators of hospital performance (Source: Caballer - Tarazona et al., 2010)

It's important to note that these are just a few basic indicators, and a comprehensive assessment of hospital performance often involves considering additional factors like quality of care, patient satisfaction, and community engagement. The specific set of indicators used will vary depending on the context and needs of the stakeholders involved

3. RESEARCH AND RESULTS

Systematic collection and analysis of recent literature led to results on the role of artificial intelligence in increasing hospital performance. Examples of the influence of AI in increasing hospital performance were presented, and the situation in the Republic of Croatia was looked at. Prerequisites for the use of AI in improving economic indicators related to the performance of the hospital and ways to ensure the prerequisites have been identified.

3.1. Roles of AI in increasing of economic indicators of hospital performance

Artificial intelligence (AI) has the potential to significantly improve various aspects of hospital operations, leading to increased economic performance in several ways. Here's a detailed breakdown of its roles (Aksu, A., Özdemir, A.,2023), (Ammenwerth, E., Saß, R.et al.., 2022), (Ahn, A. C, 2022).

Revenue and Expenses:

- **Revenue optimization:** AI can analyse patient data and historical trends to predict patient needs and identify opportunities for preventive care and early intervention. This can help capture potential revenue streams by encouraging preventative measures instead of expensive reactive treatments.
- **Improved coding and billing accuracy:** AI can automate tasks like medical coding and billing, reducing human error and ensuring accurate reimbursement for services provided. This streamlines the revenue cycle and minimizes financial losses due to incorrect coding.
- **Cost reduction in procurement:** AI can analyse purchasing data and identify trends in utilization to optimize inventory management and negotiate better deals with suppliers. This helps reduce costs associated with unnecessary or overpriced supplies.

Efficiency and Resource Utilization:

- **Predictive analytics for resource allocation:** AI can analyse patient data and predict potential patient surges or specific needs, allowing for efficient allocation of staff and resources. This proactive approach streamlines operations and minimizes resource waste.
- **AI-powered scheduling and bed management:** AI algorithms can analyse historical data to optimize patient scheduling and ensure efficient bed utilization. This reduces patient wait times, improves bed turnover, and maximizes billable occupancy rates.
- **Reduced readmission rates:** AI can analyse patient data to identify patients at high risk of readmission and develop personalized care plans to prevent rehospitalizations. This reduces costs associated with repeat admissions and improves overall patient outcomes.

Financial Health and Solvency:

- **Early fraud detection:** AI can analyse financial data to identify patterns and anomalies that might indicate potential fraud attempts in insurance claims or billing practices. This helps prevent financial losses and improves financial integrity.
- **Real-time financial insights:** AI-powered dashboards can provide hospital administrators with real-time insights into financial performance, allowing them to make informed decisions about resource allocation and cost-saving measures. This enhances transparency and facilitates effective financial planning.
- **Predictive modelling for financial forecasting:** AI can analyse various factors like patient demographics, treatment trends, and economic indicators to predict future financial performance. This enables hospitals to proactively prepare for potential financial challenges and make informed investment decisions.

AI is a tool, and its effectiveness depends on various factors like data quality, implementation strategies, and ethical considerations. However, its potential to revolutionize hospital operations and improve economic performance is undeniable, making it an essential tool for healthcare providers seeking to navigate the increasingly competitive healthcare landscape.

3.2. Examples of using AI in increasing economic indicators related to hospital performance

Here are some real-world examples of how hospitals are leveraging AI to improve their economic performance (Blease, N., Kumar, S., & Woodcock, A., 2022), (Chowdhary, S., Li, H., 2023), (Bansal, V, 2023), (Bohm, J, 2022), (Carcillo, S. C., 2023), (Chen, M. H, 2022):

Revenue Optimization

- **Mayo Clinic:** Implemented an AI-powered platform that analyses patient data and identifies individuals at risk of chronic diseases. The platform then prompts healthcare providers to engage these patients in preventive care programs, potentially leading to early intervention and reduced future healthcare costs.
- **UCSF Health:** Uses AI to analyse patient data and predict the likelihood of patients choosing specific services. This allows healthcare providers to target outreach campaigns and marketing efforts towards individuals more likely to utilize specific services, potentially increasing revenue streams.

Cost Reduction

- **Atrium Health:** Utilized AI to streamline its supply chain management. The AI system analyses purchasing data and identifies opportunities to consolidate purchases and negotiate better contracts with suppliers, resulting in significant cost savings.
- **Cleveland Clinic:** Implemented an AI-powered platform to automate various administrative tasks, including scheduling appointments and managing referrals. This frees up valuable staff time, allowing them to focus on patient care and reducing overall labour costs.

Efficiency and Resource Management

- **Mount Sinai Health System:** Implemented an AI-based system to predict patient volumes and admissions in real-time. This allows for the optimized allocation of staff and resources, minimizing wait times and maximizing bed utilization, leading to improved operational efficiency.
- **Massachusetts General Hospital:** Utilizes AI to analyze patient data and predict the risk of post-surgical complications. This allows healthcare providers to proactively intervene and prevent complications, reducing the need for readmissions and associated costs.

Financial Health and Solvency

- **Humana:** Leverages AI to analyse insurance claims data and identify potential fraudulent activities. This proactive approach helps prevent financial losses and ensures accurate reimbursements.
- **Sentara Healthcare:** Implemented an AI-powered dashboard that provides real-time financial insights and data visualizations. This empowers administrators to make informed decisions about resource allocation and cost-saving measures, improving overall financial planning and solvency.

While the potential of AI in improving hospital performance is evident, it's important to acknowledge the evolving nature of this field and the limitations of attributing specific numerical results solely to AI implementations. Here's why:

- **Complexities of implementation.** AI projects often involve integrations with existing systems, changes in workflows, and training of personnel. Measuring the impact of AI becomes intertwined with these factors, making it challenging to isolate the specific contribution of AI.
- **Multifaceted nature of performance.** Economic indicators are just one aspect of hospital performance. AI interventions often address multiple areas like clinical outcomes, patient experience, and staff satisfaction, making it difficult to quantify the specific economic impact.

- **Variability in study designs.** Existing studies examining the impact of AI in healthcare often differ in methodology, sample size, and specific AI implementations. This makes direct comparisons and generalizing results challenging.

However, some studies do attempt to quantify the potential benefits of AI in specific areas:

- **Revenue optimization:** A study by Accenture suggests that AI-powered patient engagement platforms could potentially generate **$300 billion to $450 billion** in annual revenue for healthcare providers in the US by 2025.
- **Cost reduction:** A study by Frost & Sullivan [source unavailable] estimates that AI could help the US healthcare industry save **$677 billion** annually by 2025 through improved operational efficiency and reduced administrative costs.
- **Readmission reduction:** A study published in **JAMA** https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6437443/ found that an AI-based model could potentially **reduce hospital readmissions by 8.3%**.

It's important to interpret these results cautiously, understanding the limitations mentioned earlier. While they offer insights into the potential of AI, they shouldn't be considered definitive measures of its impact. Instead of focusing solely on specific numerical results from individual studies, it's more valuable to consider the broader trends and potential of AI in improving hospital performance. As AI continues to evolve and integrate into healthcare systems, we can expect further research aimed at quantifying its specific impact across various economic indicators.

3.3. The situation in the Republic of Croatia

Unfortunately, finding real-world examples of hospitals in Croatia using AI to specifically improve economic indicators is currently challenging. Here's why:

- **Newer Technology.** AI implementation in healthcare is still a **relatively new phenomenon** globally, and even more so in smaller countries like Croatia. Many healthcare institutions, including those in Croatia, might be in the early stages of exploration and adoption.
- **Limited Public Information.** Even if hospitals in Croatia are utilizing AI, readily available information about specific implementations and their economic impact might be limited. This could be due to ongoing projects, confidentiality concerns, or a focus on internal assessments not readily shared publicly.
- **Focus on Quality and Efficiency.** While economic indicators are relevant, Croatian hospitals might prioritize **improving patient outcomes, clinical quality, and operational efficiency** as primary drivers for AI adoption. This makes it difficult to isolate the economic impact specifically.

However, there are some positive indicators suggesting the potential for AI in Croatian healthcare:

- **Government Initiatives.** The Croatian government has recognized the potential of AI and implemented initiatives like the **Croatian National AI Strategy** to encourage its development and application in various sectors, including healthcare. [source unavailable]
- **Academic Research.** Croatian universities and research institutions are actively involved in AI research, including applications in healthcare. This suggests growing interest and potential future advancements in incorporating AI into hospital practices.

While concrete examples showcasing the economic impact of AI in Croatian hospitals might be limited at present, the future holds promise.

As AI adoption in healthcare continues to gain momentum and transparency increases, we might see more readily available cases demonstrating its effectiveness in improving hospital performance, including economic indicators, in Croatia and other countries.

3.4. Case study - an example of pseudocode for smart bracelet for patients in hospital

Here's an example of pseudocode for a smart bracelet for hospital patients (Esteva, A, 2017), (Ghassemi, F,2022), (Jiang, F, 2020).

Initialize
- Set patient ID from hospital database
- Monitor vitals sensors (heart rate, blood oxygen)
- Set thresholds for abnormal vitals (based on patient profile and doctor's orders)

Main Loop
- Continuously monitor patient vitals
  - If heart rate is below threshold OR above threshold: Alert medical staff with patient ID and vital sign reading
  - If blood oxygen is below threshold: Alert medical staff with patient ID and vital sign reading
- Display current vitals on bracelet screen
- Every hour:
  - Send vitals data (patient ID, timestamps, readings) to hospital database

Alarm Function
- Trigger alarm with vibration and sound
- Display flashing red light on bracelet screen
- Send emergency notification to nurse station with patient ID

Note: This is a simplified example and specific details may vary depending on the functionalities of the bracelet and hospital protocols.

Additional functionalities that could be included in the pseudocode
- Allow medical staff to adjust vital thresholds remotely.
- Implement a button for patients to manually request assistance.
- Integrate with a fall detection algorithm and trigger alarms if a fall is suspected.
- Store and display patient medical history on the bracelet screen.

3.4.1. Pseudocode for training and prediction the smart bracelet

The provided pseudocode focuses on the monitoring and alerting aspects of the smart bracelet. AI for training and prediction might not be directly implemented on the bracelet itself due to processing limitations. However, the data collected by the bracelet can be used to train and improve AI models in a centralized system. Here's how we can modify the pseudocode to acknowledge this:

Data Transmission
- Every hour (or at specific intervals):
  - Send anonymized vitals data (time-stamped readings) to a secure hospital server

Centralized AI System (on hospital server):
Training

- Continuously collect anonymized patient data from smart bracelets.
- IF new data meets a threshold (enough data points, specific time window):
  - Train a machine learning model (e.g., anomaly detection model) to identify abnormal vital patterns.
  - Update the model with the new data.

Prediction

- Receive real-time or batched vitals data from smart bracelets.
- Use the trained model to analyze the incoming data for abnormalities.
- IF an anomaly is detected:
  - Send an alert notification to the patient's nurse station with patient ID and the predicted anomaly type.

Note: This is a high-level overview separating the bracelet's function from the centralized AI system. The actual implementation of the AI system would involve more complex algorithms and libraries.

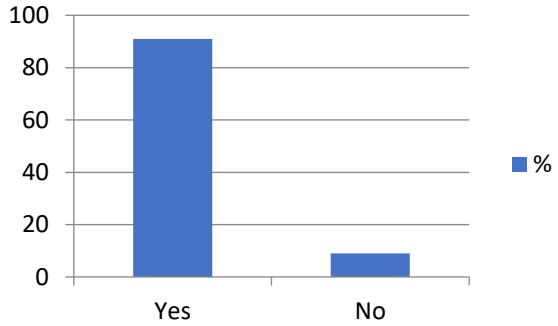
This approach leverages the bracelet for data collection and focuses the AI capabilities on a central server with more processing power and access to larger datasets. This improves the overall accuracy and efficiency of the AI for anomaly detection.

3.5. Survey on smart bracelets

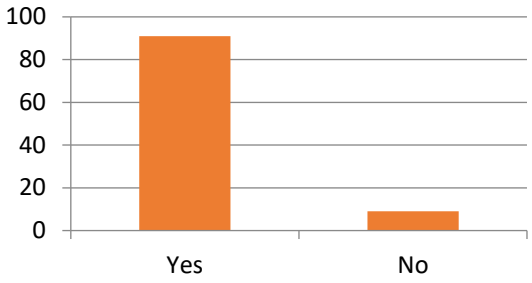
The research was conducted on a random sample in the month of November 2023 in two hospitals: "OB Koprivnica" and "KBC Sestre milosrdnice". Three hundred questionnaires with three questions were distributed:

1) What percentage of your time is saved by using smart bracelets?
2) Smart bracelets warn of a problem in patients before the patient is gone (Yes, No)
3) Do smart bracelets help with patient identification (Yes, No)?

Two hundred and eleven questionnaires or 70, 30% were returned. Research shows that a smart bracelet saves 23% of the time of medical professionals. In response to the second question, 87% of respondents answered positively. 91% of respondents answered positively to the third question. Based on the results of the survey, it can be concluded that smart bracelets have a positive effect on hospital operations by identifying complications early, allowing medical staff more time and making it almost impossible to change the identity of patients (there are no possible costs of patient lawsuits due to incorrect treatment).



Picture 1: Eaarly Alert;
(Source: author research)



Picture 2: Patient identification
(Source: author research)

3.6. Examples of using smart bracelets around the world

- Mount Sinai Hospital, New York: A pilot program explored using smart bracelets for remote patient monitoring after discharge. Patients with heart failure wore the bracelets, which transmitted vital signs data to healthcare professionals. This allowed for earlier intervention in case of concerning changes[1].
- Singapore: An initiative utilizes smart bracelets for patient flow management within a hospital. The bracelets track patient location and movements, potentially reducing wait times and improving resource allocation[2].
- Hospital Universitario La Paz, Madrid: A pilot study investigated the use of smart bracelets for monitoring patients with chronic obstructive pulmonary disease (COPD). The bracelets tracked vitals and activity levels, allowing for early detection of potential exacerbations and timely medical intervention[3].

Mount Sinai Hospital, New York	explored using smart bracelets for remote patient monitoring after discharge	reduced hospital readmission rates between **10 and 30%**
Singapore Hospital	utilizes smart bracelets for patient flow management within a hospital	reduce wait times in emergency departments by **20-30%**
Hospital Universitario La Paz, Madrid	the use of smart bracelets for monitoring patients with chronic obstructive pulmonary disease (COPD)	Reduce hospital admission for COPD by **30 %**

Table 2: How using of smart bracelet (part of AI) improve hospital performance; source: author research

4. DISCUSSION

In order for artificial intelligence to be effective in improving economic indicators related to hospital operations, it is necessary to define which prerequisites should be fulfilled and how to fulfil them. In addition, it is necessary to identify risks as well as measures to reduce them.

4.1. Preconditions for using AI in improvement economic indicators related to hospital performance

Implementing AI to improve the economic indicators of hospitals requires several key preconditions to ensure success (Dai, J., Xu, J., Li, R., 2024), (Esteva, A., Lopez-Navarro, A., & Villaro, J., 2023)., (Fernandez-Llorca, D., San-Segundo, R., 2023),(Liu, X,2020), (Miotto, R,2017)

[1] https://bmeiisinai.org/wearables/
[2] https://ihealthtech.nus.edu.sg/publication/flexible-wearable-sensors-for-cardiovascular-health-monitoring/
[3] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC10427851/

Data Infrastructure and Quality:

- **Robust data infrastructure:** Hospitals need a reliable and secure data infrastructure to collect, store, and manage vast amounts of patient data. This includes electronic health records, claims data, and operational data, all readily accessible for AI algorithms to analyse.
- **Data quality and standardization:** The data used for AI models needs to be accurate, complete, and standardized. Inconsistent or incomplete data can lead to biased and inaccurate results, potentially hindering AI's effectiveness.

Expertise and Resources:

- **AI expertise:** Hospitals need access to individuals with expertise in AI technology and its application in healthcare. This can involve data scientists, engineers, and healthcare professionals with a good understanding of AI capabilities and limitations.
- **Financial and technological resources:** Implementing AI requires significant financial and technological resources. Investments are needed in hardware, software, and personnel with the necessary expertise to develop, maintain, and monitor AI solutions.

Organizational Culture and Leadership:

- **Supportive leadership:** Hospital leadership needs to be enthusiastic about AI and its potential benefits, fostering a culture of innovation and change. This involves setting clear goals, allocating resources, and providing ongoing support for AI initiatives.
- **Change management:** Implementing AI often involves changes in workflows, processes, and potentially even job roles. Proactive change management strategies are crucial to ensure employee buy-in, minimize disruption, and maximize the successful integration of AI into hospital operations.

Ethical Considerations and Transparency:

- **Data privacy and security:** Protecting patient data privacy and ensuring its secure use during AI development and deployment is paramount. Hospitals need robust data governance frameworks and adhere to ethical guidelines around data handling.
- **Transparency and explainability:** AI models should be transparent and explainable, allowing healthcare professionals to understand the rationale behind AI-driven recommendations and fostering trust in the technology.

Collaboration and Partnerships:

- **Collaboration with AI developers:** Hospitals can benefit from collaborating with established AI developers or research institutions with expertise in healthcare applications. This can accelerate the adoption of existing solutions or even co-develop customized AI solutions tailored to specific needs.
- **Interdepartmental collaboration:** Successful AI implementation requires collaboration between various hospital departments, including IT, finance, operations, and clinical teams. This ensures a holistic approach that considers potential impact across different areas of hospital operations.

By addressing these preconditions, hospitals can create a solid foundation for utilizing AI effectively and harnessing its potential to improve their economic performance while upholding ethical principles and ensuring patient data security.

4.2. Ensuring the preconditions

While AI boasts immense potential to improve hospital economic performance, ensuring the necessary preconditions is pivotal for success. Here's a detailed breakdown of strategies for guaranteeing these preconditions (Giuffrida, A., Maglia, M., Travaglini, G., 2022), (Jungmann, C., Gude et al. 2023)., (Lee, J., Kang, J., Lee, J., 2023) (Miotto, R, 2018),(Nasr-Esfahani, E, 2022).

Building a Robust Data Infrastructure:

- **Invest in Data Warehousing:** Implement robust data warehouses capable of storing vast amounts of structured and unstructured data from various sources like electronic health records, claims data, and operational data.
- **Standardize Data Collection and Storage:** Establish standardized data collection and storage protocols across departments to ensure consistency and quality. This minimizes inconsistencies that can lead to biased and inaccurate AI results.
- **Implement Data Governance:** Develop comprehensive data governance frameworks with clear policies and procedures regarding data access, security, and privacy. This ensures responsible data handling and adheres to ethical standards.

Cultivating AI Expertise and Resources:

- **Partner with Universities and Research Institutions:** Collaborate with universities or research institutions specializing in AI and healthcare to leverage existing expertise and potentially co-develop customized AI solutions tailored to specific hospital needs.
- **Invest in AI Training Programs:** Train existing staff or recruit individuals with expertise in AI, data science, and healthcare to build an in-house team capable of managing and maintaining AI solutions.
- **Allocate Dedicated Budgets:** Allocate dedicated budgets for AI initiatives, encompassing hardware, software, and personnel costs associated with developing, implementing, and monitoring AI solutions.

Fostering a Supportive and Change-oriented Culture:

- **Executive Champions:** Engage hospital leadership to act as champions for AI, actively promoting its potential and securing ongoing support for its implementation.
- **Transparency and Communication:** Communicate openly and transparently with hospital staff about AI initiatives, explaining potential benefits, addressing concerns, and ensuring buy-in throughout the process.
- **Upskilling and Reskilling Programs:** Offer upskilling and reskilling programs to prepare staff for potential changes in workflows, processes, or job roles associated with AI implementation.

Prioritizing Ethical Considerations and Transparency:

- **Data Privacy and Security Audits:** Conduct regular data privacy and security audits to identify and address potential vulnerabilities, ensuring patient data remains protected throughout the AI lifecycle.
- **Implement Explainable AI (XAI) Techniques:** Utilize Explainable AI (XAI) techniques to make AI models more transparent and understandable. This allows healthcare professionals to comprehend the rationale behind AI-driven recommendations and fosters trust in the technology.

- **Establish Ethics Committees:** Establish ethics committees within the hospital to oversee AI development and deployment, ensuring adherence to ethical guidelines and responsible data handling practices.

Building Collaboration and Partnerships:

- **Engage with AI Developers:** Actively seek partnerships with established AI developers or companies specializing in healthcare applications. This can expedite the adoption of existing solutions or facilitate the development of customized AI solutions that address specific hospital needs.
- **Cross-departmental Collaboration:** Establish strong collaboration between various hospital departments, including IT, finance, operations, and clinical teams. This facilitates a holistic approach that considers the potential impact and integration of AI across diverse hospital operations.

By actively implementing these strategies, hospitals can systematically address the preconditions for successful AI adoption and unlock its potential to revolutionize their economic performance while maintaining ethical practices and patient data security. This roadmap paves the way for utilizing AI as a powerful tool to navigate the ever-evolving healthcare landscape and ensure long-term financial sustainability.

4.3. Risk of using AI in increasing economic indicators of hospital performance and mitigate the risks

While AI presents exciting possibilities for improving hospital performance, embracing this technology also comes with inherent risks that need careful consideration and mitigation strategies. Here, we explore the key risks associated with utilizing AI in economic aspects of healthcare and potential strategies to address them (Oh, H., Lee, S., Moon, S., 2022) (Ramesh, A., Boopathi, R., Rajasekaran, S., 2023), (Topol, E.,2023),(Oh, H., 2023), (Shickel, L, 2023), (Zeynel, C, 2022).

- **Biased algorithms.** AI algorithms can inherit and amplify existing biases present in the data used to train them. This can lead to discriminatory practices, favouring certain patient groups over others in areas like resource allocation, treatment recommendations, or pricing.

Mitigation Strategies:

- **Diverse datasets:** Use diverse and representative datasets during AI development to minimize the risk of bias. This involves actively seeking data that reflects the demographics of the population served by the hospital.
- **Human oversight:** Maintain human oversight throughout the AI decision-making process, ensuring fairness and ethical considerations are integrated into AI-driven recommendations.
- **Job displacement**: Implementing AI may automate certain tasks previously performed by humans, potentially leading to job losses or changes in job roles within the hospital.
- **Upskilling and reskilling programs:** Offer upskilling and reskilling programs to equip existing staff with the skills necessary to adapt to new workflows and potentially transition to different roles within the hospital.
- **Transparency and communication:** Communicate transparently with staff about potential changes due to AI, engaging them in the process and addressing their concerns proactively.
- **Over-reliance on AI:** Over-reliance on AI without proper human oversight can lead to neglecting crucial aspects like patient-centered care, empathy, and the nuances of human interaction that AI may struggle to replicate.

- **Clearly defined boundaries:** Clearly define the boundaries of AI applications, ensuring they are used as supplemental tools to support healthcare professionals, not replace their expertise and judgment.
- **Focus on human-centered care:** Emphasize and prioritize the importance of human-centered care throughout the implementation process, ensuring that AI complements, not diminishes, the human element in healthcare delivery.
- **Data security and privacy breaches:** AI systems rely on vast amounts of sensitive patient data, making them vulnerable to potential security breaches or misuse.
- **Robust data security measures:** Implement robust data security measures, including encryption, access controls, and regular security audits to safeguard patient data throughout the AI lifecycle.
- **Compliance with regulations:** Adhere to relevant data privacy regulations and obtain informed consent from patients regarding data collection and usage for AI purposes.
- **Lack of transparency and explainability:** Complex AI models can be difficult to understand, making it challenging for healthcare professionals to comprehend the rationale behind AI-driven recommendations. This can hinder trust and acceptance of the technology.
- **Explainable AI (XAI) techniques:** Utilize Explainable AI (XAI) techniques to make AI models more transparent and understandable. This allows healthcare professionals to scrutinize AI recommendations and make informed decisions.
- **Open communication and education:** Foster open communication and education within the hospital, explaining the capabilities and limitations of AI to build trust and understanding among healthcare professionals.

By acknowledging potential risk and implementing effective mitigation strategies, hospitals can harness the power of AI for economic improvement while safeguarding ethical principles, patient well-being, and overall healthcare quality. As AI continues to evolve, ongoing vigilance and adaptation are crucial to ensure its responsible and beneficial application in hospital systems.

5. CONCLUSION

The integration of AI into the healthcare landscape presents a transformative opportunity to improve hospital performance across various dimensions, including economic indicators. From optimizing revenue and reducing costs to enhancing resource utilization and financial solvency, AI offers promising avenues for driving sustainable healthcare systems. However, embracing AI also necessitates acknowledging and mitigating inherent risks. Mitigating biases, fostering human-centered care, ensuring data security, and prioritizing transparency are crucial aspects for responsible AI implementation. As AI continues to evolve, hospitals must navigate a delicate balance between innovation and responsibility. By establishing robust preconditions, fostering a supportive culture, and prioritizing ethical considerations, they can unlock the potential of AI to revolutionize hospital performance while safeguarding patient well-being and upholding the core values of the healthcare profession. This responsible approach paves the way for a future where AI serves as a powerful tool to enhance both the economic and social sustainability of healthcare, ultimately improving patient outcomes and creating a healthier future for all.

5.1. Scientific contribution

The scientific contribution of the above text lies in its analysis of the potential and risks of utilizing Artificial Intelligence (AI) in improving hospital performance, particularly focusing on economic indicators. Here's a breakdown of its key contributions.

1) Highlighting the potential of AI in healthcare economics:
   - The text comprehensively explores various ways AI can contribute to increased revenue, reduced costs, improved resource utilization, and enhanced financial health of hospitals.
   - Real-world examples showcase successful applications of AI in revenue optimization, cost reduction, efficiency management, and financial solvency.
2) Addressing limitations and challenges:
   - The text acknowledges the limitations of attributing specific numerical results solely to AI implementations due to complexities, multifaceted performance measures, and variations in study designs.
   - It emphasizes the importance of considering factors like data quality, implementation strategies, and ethical considerations for effective AI integration.
3) Discussing the Croatian context:
   - While acknowledging the limited real-world examples of AI applications in Croatian hospitals specifically targeting economic indicators, the text explores reasons behind this, including the evolving nature of AI in healthcare and the focus on other priorities like quality and efficiency.
   - It highlights positive indicators like Croatian government initiatives and academic research suggesting future potential for AI adoption in the country's healthcare system.
4) Emphasizing the preconditions for successful AI implementation:
   - The text outlines several crucial preconditions for ensuring successful AI implementation in hospitals, including robust data infrastructure, access to AI expertise, supportive leadership, a culture of change management, and prioritizing ethical considerations.
   - It offers detailed strategies for establishing these preconditions, such as data warehousing, data governance, collaboration with universities, staff training, and establishing ethics committees.
5) Analyzing risks associated with AI in healthcare:
   - The text identifies potential risks like biased algorithms, job displacement, over-reliance on AI, data security breaches, and lack of transparency.
   - It proposes mitigation strategies for each risk, including using diverse datasets, human oversight, upskilling programs, clearly defined boundaries for AI, robust data security measures, and implementing Explainable AI (XAI) techniques.

5.2. Overall contribution

This text provides a valuable resource for researchers, healthcare professionals, and policymakers by:

- Summarizing the current understanding of AI's potential to improve hospital economic performance.
- Offering a balanced perspective acknowledging both the benefits and challenges of AI adoption.
- Providing insights into specific strategies for successful AI implementation while mitigating associated risks.
- Highlighting the need for further research to quantify the specific economic impact of AI in healthcare.

While the text itself may not present entirely novel scientific findings, it effectively compiles and synthesizes existing knowledge on the topic. It offers a valuable framework for understanding the potential and practical considerations surrounding AI implementation in improving hospital performance, particularly focusing on economic indicators.

This knowledge can serve as a foundation for future research and inform the responsible adoption of AI technologies in healthcare systems.

Limitations o research:

- The text primarily relies on existing research and literature, and may not present original scientific data or experiments.
- The specific examples provided illustrate the concepts but lack in-depth analysis of the data and methodologies used.

It's important to note that further research is needed to comprehensively evaluate the long-term impact of AI on hospital performance across various economic indicators. Additionally, addressing the ethical considerations and ensuring transparency throughout the development and deployment of AI solutions remains crucial in this evolving field.

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GENERATION Z: IMPACTS OF CONSUMER ETHNOCENTRISM AND PLACE ATTACHMENT ON PURCHASE INTENTION

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ABSTRACT

Globalisation and mobility allow access to a wide range of domestic and foreign products, which has changed consumer perceptions and plays an important role in shaping the purchasing habits and intentions of global consumers. As a result of globalisation, consumer ethnocentrism appears to be one of the main factors that can influence consumer perceptions and purchasing intentions towards domestic and foreign products. Therefore, it is necessary to develop a better understanding of the factors that influence consumers' intentions and perceptions towards domestic products, especially among Generation Z. The main objective of this thesis is to examine the relationship between place attachment, consumer ethnocentrism and purchase intention in relation to respondents' gender, place of study and attitude towards religion. To achieve the main objective of this thesis, an empirical study was conducted with a random sample consisting of Generation Z members. Structural equation modelling was applied to examine which dimensions have an important influence on consumers' ethnocentrism and to explore whether there are some dimensions that have a great influence on Generation Z's purchase intentions. The results of this study contribute to the theoretical background of the literature on consumer ethnocentrism and also provide an empirical contribution for marketers to adapt their strategy for Generation Z buying behaviour.

Keywords: *Consumer ethnocentrism, Generation Z, Place attachment, Purchase intention*

1. INTRODUCTION

The concept of consumer ethnocentrism originates from the general concept of ethnocentrism, which was introduced by Sumner (1906) in his Folkways: A Study of the Sociological Importance of Usages, Manners, Customs, Mores, and Morals. It's generally refers to the tendency of individuals to view their own group as the centre and reject culturally dissimilar views while accepting those who share similar beliefs (Shimp and Sharma, 1987). The level of ethnocentrim is detemined by the assumption that one's own group is superior to any other group (Boukamba et al., 2021). The concept of ethnocentrism extends to the field of marketing especially in determining consumer behavior. Consumer ethnocentrism is typically associated with negative attitudes towards foreign products (Sharma, et al., 1995). Consumers with high consumer tendency will show a stronger preference for domestic products regardless of their quality and price, while non-ethnocentric consumers tend to evaluate foreign products based on their quality and performance regardless of the country of origin. For some individuals, also place has strong emotional connection and it is a meaningful and significant place where they can get sense of belongings.

In this regard, the place has unique identity and personality to the individuals which can be highly valued elements to the attachment process. Scannell and Giford (2010 a,b) stated that it is not only important how attachment manifests itself, but also who gets attached and what are the features of the places that are most likely to promote attachment. Identifying with the place goals individuals are integrated with the place and if the individuals are satisfied with these goals; hence they have a deep attachment to the places. They would like to invest their own resources or buy local products in order to protect and support in the development of its place. Therefore, place attachment can be seen as a tool to improve local or regional development (Scannell and Gifford, 2017; Strzelecka et al., 2017), such as purchasing domestic products. Consumers do not buy brands only for their functionality and quality, they buy because they can be identified with that products especially if they emotionally involved. Consumers tend to engage in all kinds of behaviours when attachment is strong (Mikulincer 1998) so if they have strong engaging with the place they will probably be more inclined to buy domestic/local products. Globally, businesses are increasingly shifting their focus on a new and attractive segment of consumers i.e., Generation Z. Many studies show that younger consumer show ethnocentric tendency toward domestic products and that Generation Z's motivation for buying and consuming local products is reflected in their attitude towards love and pride in local products (Potluri et al. 2022; Dhewi and Oktaviani (2023). It is often considered that people who have lived longer in a place feel a greater sense of attachment to it but considering the characteristics of generation Z it could be interesting to see how they identified attached to the place through their tendencies to buy domestic products. Therefore, the main objective of this paper is to examine the relationship between place attachment, consumer ethnocentrism and purchase intention in relation to responders' gender, place of study and attitude towards religion. To achieve the main objective of this paper, an empirical study was conducted with a convenience sample formed by members of Generation Z. In order to meet the stated research objectives and systematically present this empirical work, the paper was structured as follows. First, existing knowledge of place attachment was reviewed, serving as a basis for hypotheses construction. Methodology research included research instrument, research hypotheses and sample characteristics. Finally, in the last part of this paper, findings of research were presented as well as conclusions, limitations and suggestions for future research.

2. LITERATURE REVIEW

Marketing researchers have recognized consumer ethnocentrism concept a crucial factor in the field (Caruana, 2005). Consumer ethnocentrism has a vital role in consuming local products but has a low contribution to the consumption of imported products. Consumers with a high degree of consumer ethnocentrism tend to prefer domestic products (De Nisco et al. 2020; Dmitrovic et al. 2009; Wang and Xiong, 2004) and reject foreign products (Huang et al. 2008; Ishii, 2009; Klein et al. 2006). The reason for this change in behavioural intention is the effort to improve the economic situation of one’s home country (e.g., increasing employment by buying a domestic product, supporting the domestic economy). Therefore, consumer ethnocentrism influences and shapes purchase consumer behavior (Jiménez-Guerrero et al. 2014). Therefore, consumer ethnocentrism can positively affect buying behavior for local products and can be negatively related to consumer preferences for foreign products (Kilders et al. 2021). It can be interpreted that consumers with high ethnocentrism will tend to reject the purchase of global products and prefer to buy local products. Ethnocentric consumers have a stronger emotional attachment to domestic products, which is why they prefer local products over imported ones, often without a rational reason (Casado-Aranda et.al., 2020). Ethnocentric consumers, in addition to their beliefs that it is their duty to support domestic products, precive other consumers who buy foreign products as unpatriots, dangerous for the stability of their country’s economy that could cause economic damages.

Consequently, highly ethnocentric consumer claims that buying imported products can be considered as a unethical act that could increases unemployment (Xin and Seo, 2019). Generation Z is considered to be well educated and community-centred in their behavior (Sharma et al. 2022) but generation Z has high expectations and different responses to purchasing consumption. Some studies (Onin et.al., 2022; Andriyanty and Wahab, 2022, Dhewi and Okativani, 2023) found that consumer ethnocentrism has a positive and significant influence on purchase intention of generation Z. In study of Yunitasari et al (2022) consumer ethnocentrism has a positive influence on Generation Z's preferences for global makeup products in Indonesia directly or through relative product quality. The generation Z are the potential customers that businesses would target and such unique customer segments are understudied (Rodrigo and Herath, 2023). Therefore, it is essential to explore the features of generation Z which may prove to differ from that of other generations (Nguyen and Nguyen, 2020). Place attachment is responsible for strong emotional and physiological reactions in individuals (Lewicka, 2011). Therefore, place attachment can be seen as an emotional bond between an individual (or a community) and a specific location. This bond is based on an accumulation of physical, social, historical and cultural meanings that become associated with the place through time and experience (Low and Altman 1992; Giuliani 2003; Scannell and Gifford, 2010a).This explain that place attachment show unique passion or emotion that an individual has toward a specific place. Consequently, place attachment becomes the important motivator in individuals behavior that aim to preserve, protect, or promote a specific place. Preserving, protecting, or supporting the place can be considered as part of an exchange system through which individuals create strong emotional bonds through these actions. Attachment to place can also make individuals inclined to spend money on buying local products, not only to enhance their own satisfaction but also to improve the national/local economy. Therefore, place attachment can be seen as a positive, emotional bond that individuals build with specific places where they feel comfortable and safe, and also have tendency to preserve and protect that same place. Over time, consumers develop a feeling of "devotion" with the place and view it's as their own (Aron et al. 1992). Place attachment could predict behaviour intention in context of consumer purchase intentions towards domestic products. The place attachment could indicate to individuals' effort to preserve a relationship with the domestic product to maximize emotional benefit when faced with the complex decision-making process. Therefore, consumer who have strong emotional bond with their place will probably higher tendency to buy domestic or local products in order to fulfil their needs like protect national/local economy. Studies indicate that place attachment can predict behavioural loyalty, regarded as the intention to return (Tsai, 2016; Yuksel et al., 2010). An individual who is attached to a place is more likely to spread a positive WOM about that place and even to return or stay there. More specifically, individuals who develop emotional connections with the specific place and have higher ethnocentric tendency will impact on behavioural intentions. It can be concluded that place attachment and ethnocentric tendencies will increase their intention to return in their specific place. Gender as socio-demographic variable has direct effects on ethnocentric tendency and product evaluation (Bruwer et al. 2023) Some study identified effect of gender significance in relation with ethnocentric consumer behavior, with women being more consumer ethnocentric i.e. women evaluate foreign products more favourably than men (Sharma, 2015; Bryła, 2021, Čvirik, 2021, Čvirik et al. 2023, Miguel et al. 2023). Although, some studies (Caruana and Magri, 1996; Bizumic, 2019, Rahimi et al. 2023) did not found a relation between gender and ethnocentrism consumer behaviour. Ethnocentrism relates to the evaluation of others' cultures based on one's own cultural values and norms (Chaudhry, ali Mughal, Chaudhry & Bhatti, 2021). Religion is important variable that can influences on many phases of daily life and ultimately on consumer behaviour. The existing literature observes religion as a segmentation variable and investigates how it influences on consumer and decision making.

Religion influences consumer attitudes and behaviours in general (Delener. 1994, Pettinger et al. 2004). The level of religion differs according to individuals' religiosity (Mohani et al. 2009) with those religious tending to show high loyalty to traditional consumption. (Delener, 1994). The study Jin et al. (2024) revealed that Indonesian consumers' religiosity increased their ethnocentric tendency in relation to research from Narang (2023) where it showed that religiosity had no such significant impact on consumer ethnocentrism. Therefore, the effect of religiosity remains unclear because the findings have been mixed and demands further investigation.

3. METHODOLOGY

Data was collected by distributing questionnaires to respondents via Google forms, which were shared on social media such as Facebook, WhatsApp, Messenger and email. The survey was conducted between May and August 2023. A random sample was used for data collection. The research sample consisted of 226 Generation Z students. Seven respondents were excluded from the total number as they cannot be considered young consumers, i.e. members of Generation Z, due to their year of birth. The main objective of this paper is to examine the relationship between place attachment, consumer ethnocentrism and purchase intention in relation to responders' gender, place of study and attitude towards religion. In order to achieve the objectives of the study, a questionnaire was developed based on the results of the literature review. The questionnaire is completely anonymous and consists of four parts. The first part of the questionnaire asks for the demographic characteristics of the respondents, namely gender, year of birth, hometown, whether they are studying in their hometown and in which academic field they are studying. In addition, there are statements on their level of religiosity from 1 "I am not religious at all" to 5 "I am completely religious", on satisfaction with life in Croatia and on satisfaction with my own life from 1 "I am not satisfied at all" to 5 "I am completely satisfied". The second part includes the CETSCALE scale, which aims to determine the opinions and attitudes of young consumers towards domestic products, i.e. the tendency to buy foreign products. According to Luque-Martínez et al. (2000), the CETSCALE is an instrument that can be used to study consumer behavior, attitudes and purchase intentions in relation to foreign and domestic goods. The Consumer Ethnocentric Tendency Scale (CETSCALE) was developed, tested and validated by Shimp and Sharma in 1987 and consists of 17 items. The third part shows the respondents' purchasing intentions and preferences for domestic products. The fourth part of the questionnaire examines the respondents' attachment to place and their satisfaction with life in their place of residence. The questions in the questionnaire were formulated on a Likert scale so that the respondent expresses their agreement or disagreement with the statement on a scale from 1 "I strongly disagree" to 5 "I strongly agree".

4. RESEARCH RESULTS

With a sample size of 219 people, the demographic profile of Generation Z is as follows. Of the Generation Z age groups, more than a tenth of respondents belong to the first group, born between 1995 and 1997, two thirds of respondents were born between 1998 and 2000 and almost a fifth of respondents belong to the group born between 2001 and 2003. Nineteen respondents who took part in the survey and were born before 1995 were excluded from the analysis. The proportion of women in the overall sample is 71.7%, while the proportion of men is 28.3. Almost three quarters of respondents do not study in their home town. More than half of the respondents are studying social sciences, 15.5% are studying technical sciences and 12.8% are studying biomedicine and health sciences. Nearly half of the respondents are religious, a quarter are indifferent to religion and a quarter are also non- religious. Almost half of the respondents are satisfied with their life in Croatia, two-fifths are indifferent, while 12.4% are dissatisfied with their life in Croatia.

Demographic characteristics	Frequency	Percentage (%)
Born		
1995 - 1997	28	12.8
1998 - 2000	144	65.7
2001 - 2003	42	19.2
2004 - 2005	5	2.3
Gender		
Male	62	28.3
Female	157	71.7
I study in my hometown		
Yes	57	26.0
No	162	74.0
Field of study		
Natural Sciences	13	5.9
Technical Sciences	34	15.5
Biomedicine and Health Sciences	28	12.8
Biotechnical Sciences	7	3.2
Social Sciences	120	54.8
Humanities Sciences	10	4.6
Artistic Areas	7	3.2
Attitude towards religion		
I am not religious at all	27	12.3
I am not religious	31	14.2
I am neither religious nor am I	52	23.7
I am religious	62	28.3
I am very religious	47	21.5
Level of satisfaction with life in Croatia		
I am extremely dissatisfied	3	1.4
I am dissatisfied	24	11.0
I am neither satisfied nor dissatisfied	89	40.6
I am satisfied	87	39.7
I am extremely satisfied	16	7.3

Table 1: Respondents' profiles
(Source: Autors' research)

The reliability of the measurement scales used was measured using the Cronbach's alpha coefficient and the convergent and discriminant validity of the measurement instruments was tested using exploratory factor analyses. Table 2 shows the dimensions, the reliability analysis of the measurement scales and the results of the descriptive statistics. The analysis of the mean values shows that Generation Z is not really inclined to buy local products. They are quite reserved on this issue (M=3.51). They do not believe that ethnocentrism has an influence on the development of the Croatian economy (M=2.55). As for the connection with attachment to place, which in this questionnaire includes place identity and place dependence, Generation Z is also quite indifferent on this question (M=3.16). Finally, their intention to buy Croatian products is very low. (M=1.89).

	Item total cor	Mean	SD
CET_SC α=,902			
Croatian citizens should always buy Croatian products, not those from abroad.(q1)	,728	3,14	1,181
Only products that are not produced in Croatia should be imported. (q2)	,588	3,69	1,272
Buy Croatian products. Keep the Croatian economy going.(q3)	,713	4,21	,916
First and foremost a Croatian product, now and always. (q4)	,816	3,57	1,168
It is best to buy Croatian products. (q9)	,728	3,39	1,170
Buying foreign products should be reduced to the absolute minimum. (q10)	,733	3,38	1,199
Croatian products may be more expensive, but I prefer them. (q13)	,705	3,23	1,191
CET_2 α=,921			
Buying a foreign product is against Croatia (q5)	,763	2,07	1,155
It is not good to buy foreign products because Croatian citizens will lose their jobs. (q6)	,754	2,77	1,268
A true Croat should always buy Croatian products. (q7)	,728	2,28	1,263
They should buy Croatian products and not allow other countries to take money out of us (q8)	,725	3,08	1,292
Croatians should not buy foreign products because this harms the Croatian economy and causes unemployment. (q11)	,776	2,88	1,176
Restrictions on any kind of import should be introduced (q12)	,571	3,19	1,273
Foreigners should not be allowed to market their products on the Croatian market. (q14)	,737	2,26	1,260
Foreign products should be double taxed with high tax rates to make it difficult for them to enter the Croatian market. (q15)	,676	2,68	1,284
Foreign products should only be bought when there are no domestic products. (q16)	*,325*	*2,09*	*1,281*
Croatian consumers who buy products from abroad are responsible for their fellow citizens losing their jobs. (q17)	,723	2,19	1,155
Place Attachment α=,913			
My hometown means a lot to me. (q18)	,746	3,82	1,157
Where I come from says a lot about me (q19)	,631	3,40	1,264
I am connected to my hometown (q20)	,758	3,74	1,100
I identify with my hometown. (q21)	,790	3,27	1,247
I have the feeling that I can be who I am in my hometown. (q22)	,520	3,54	1,227
I wouldn't live in any other city than my hometown (q23)	,664	2,24	1,289
No city can compete with my hometown (q24)	,751	2,70	1,401
When I travel somewhere, I miss my hometown very much. (q25)	,680	2,80	1,304
My hometown is my favorite place to live (q26)	,761	3,00	1,349
Purchase intention α=,838			
I would feel guilty if I bought products outside Croatia. (q27)	0,449	1,74	1,011
I would never buy products made outside Croatia. (q28)	0,549	1,58	,922
Whenever I could, I would avoid buying products that were not made in Croatia. (q29)	0,61	2,56	1,310
I would always buy products from Croatia (q30)	0,557	1,95	1,150
I am more inclined to buy Croatian products (q31)	0,519	1,62	1,011

Table 2: Dimensions, reliability analysis of measurement scales and descriptive statistics (Source: Autors' research)

As shown in Table 2, the Cronbach's alpha for all constructs was above the threshold value of 0.700 (Kline, 2005). The Cronbach's alpha coefficients suggest that the measurement scales used have satisfactory reliability values, ranging from acceptable to excellent. The scale measuring purchase intention has the lowest degree of reliability, while the scale measuring the influence on the development of the Croatian economy has the highest degree of reliability. In addition, the influence of certain items on the Cronbach's alpha coefficient of the respective measurement scale was analysed in order to exclude items that lead to a reduction in the reliability of the respective measurement scale from further analysis.

On the basis of these analyses, the item "*Foreign products should only be purchased if there are no domestic products*" was excluded from further analysis. The items were then analyzed using exploratory factor analysis (EFA) with maximum likelihood for extraction and promax method for rotation. The results showed that four factors were extracted from the measurement scales, with the total percentage variance explained by these four factors being 60.3%. The KMO index was significant at 0.925 and Bartlett's Test of Sphericity gave a chi-square of 4340.070, df= 378 and sig=.000. The confirmatory factor analysis also confirmed the construct validity and the structure of the measurement model. The measurement model fulfilled the criteria of Bollen (1998), whereby each latent variable has at least two indicators and each observed variable is determined by a latent variable. The results of the measurement model indicate an excellent model fit to the data based on the goodness of fit statistics ($\chi2$=301.921; df=160; $\chi2$ significance=0.000; GFI=0.905; AGFI=0.811; NFI=0.896; CFI=0.914; RMSEA=0.038) (Hair et al., 2010). In addition, the construct validity was tested by determining the convergent and discriminant validity. Three criteria were considered to determine convergent validity: All standardized factor loadings were significant and above 0.500 (Bagozzi et al., 1991), composite reliabilities were above 0.700 (Hair et al., 1998), and all average variance extracted (AVE) values were above 0.500 (Fornell and Larcker, 1981). These statistics confirm strong convergent validity (Figure 1).

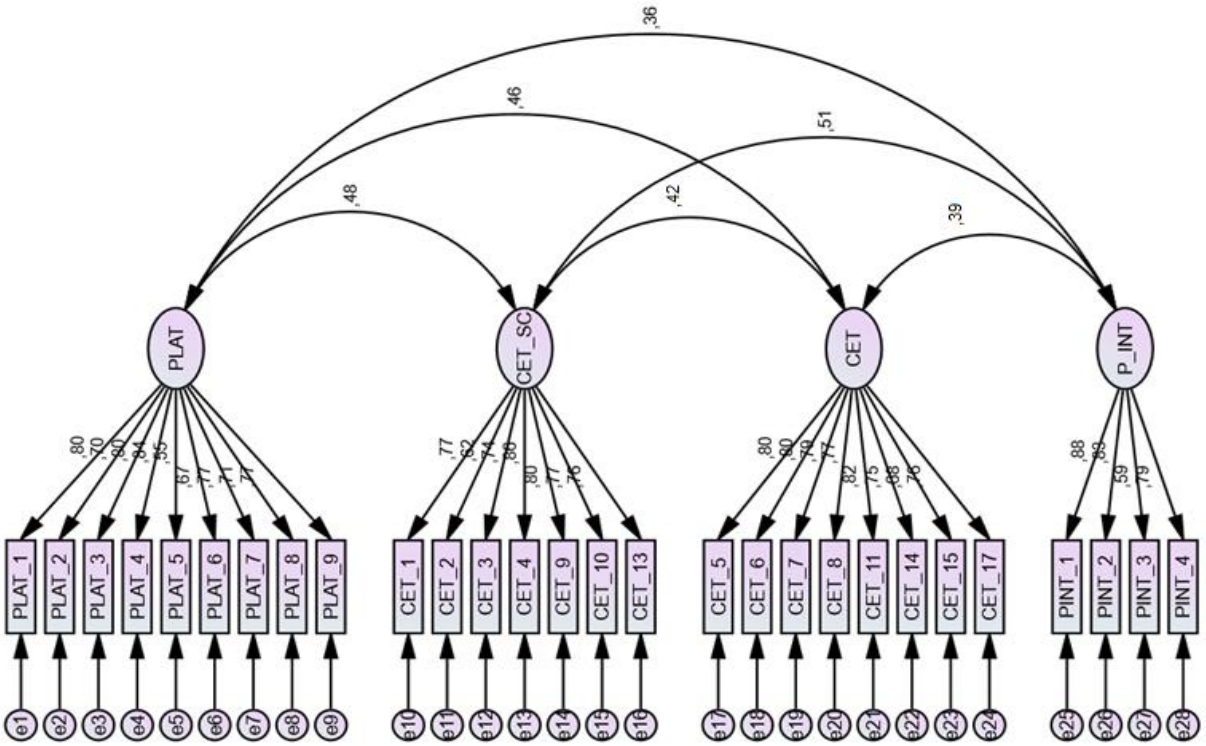

Figure 1: Measurement model
(Source: Autors' research)

Table 3 shows the correlation matrix of the constructs, where the non-diagonal elements represent the correlation between the constructs, while the diagonal elements are the square root of the AVE for the respective construct. The square root of the AVE exceeds the correlations, which demonstrates discriminant validity. It was thus shown that all four factors differed from each other. The results confirmed that the research instrument has satisfactory construct validity.

	CR	AVE	MSV	ASV	CET	PLAT	CET_SC	P_INT
CET	0,920	0,590	0,546	0,400	0,768			
PLAT	0,913	0,542	0,235	0,190	0,459	0,736		
CET_SC	0,906	0,582	0,546	0,347	0,739	0,485	0,763	
P_INT	0,859	0,609	0,444	0,276	0,666	0,353	0,511	0,780

Table 3: Discriminant validity constructs
(Source: Autors' research)

In order to determine which dimensions have an important influence on consumers' ethnocentrism and to explore whether there are some dimensions that have a great influence on Generation Z's purchase intentions structural equation model (SEM) has been applied. SEM tests proposed relationships and indicates the strength of the relationships. The overall model fit statistics showed that the SEM adequately fit the data sets. According to these indices for repondents: GFI=0,976, AGFI=0,951, NFI=0,944, NNFI=0,913, CFI=0,985 model is suitable since the measures of incremental fit are all satisfactory.

			Estimate	S.E.	C.R.	P
PLAT	<---	Gender	-,035	,132	-,269	,788
PLAT	<---	Religion	,390	,134	2,918	,004
PLAT	<---	Study place	,208	,045	4,589	***
CET_SC	<---	PLAT	,463	,057	8,125	***
CET	<---	PLAT	,448	,061	7,387	***
CET_SC	<---	Gender	,139	,111	1,252	,210
CET	<---	Gender	,059	,118	,500	,617
CET_SC	<---	Religion	,178	,115	1,556	,120
CET	<---	Religion	,008	,122	,066	,947
CET_SC	<---	Study place	,119	,040	2,979	,003
CET	<---	Study place	,077	,043	1,817	,069
P_INT	<---	PLAT	,046	,052	,882	,378
P_INT	<---	CET_SC	,136	,076	2,473	,043
P_INT	<---	CET	,689	,073	9,385	***

Table 4: Regression estimates
(Source: Autors' research)

Analysis of the data leads to the conclusion that members of Generation Z who do not study at their place of birth are more strongly connected to the place than those who study at their place of birth. There is a no statistically significant difference in terms of gender and level of ethnocentrism. Furthermore, those who do not study in their hometown tend to be more ethnocentric, in contrast to respondents who study in their hometown. Respondents who have a positive attitude towards religion, i.e. who are more religious, are more attached to their place of birth. Members of Generation Z who are more connected to a place are still slightly more ethnocentric than those who are not. Although the level of ethnocentrism among Generation Z is low, those with this phenomenon still intend to buy Croatian products.

5. CONCLUSION

Today, consumer behavior changes and develops rapidly and that is why it is crucial to understand their behavior and purchase intentions in order to determined their needs and desire. At the same time, buying domestic products has become increasingly important in many countries.

The level of consumer ethnocentrism and purchase intention frequently changes according to the features of specific generation and conditions of their environment. and can affect people's domestic purchasing intentions and behavior. Therefore, this research results provide valuable information due to constant changing of consumer purchase beliefs especially towards domestic products. The main objective of this paper is to examine the relationship between place attachment, consumer ethnocentrism and purchase intention in relation to responders' gender, place of study and attitude towards religion. The results from this study indicates that respondents who do not study at their place of birth are more strongly connected to the place than those who study at their place of birth. Furthermore, those who do not study in their hometown tend to be more ethnocentric, in contrast to respondents who study in their hometown. Respondents who have a positive attitude towards religion, i.e. who are more religious, are more attached to their place of birth and also shown stronger ethnocentric tendencies towards domestic products. Members of Generation Z who are more connected to a place are still slightly more ethnocentric than those who are not. Although the level of ethnocentrism among Generation Z is low, therefore the respondents who are more ethnocentric will probably buy Croatian products but also all other factors should be aconsidered such as prices, quality etc. This paper evaluates and explains the purchase intentions of generation Z towards domestic products. Also, the results of this research can provide comprehensive information for managers and companies to understand the ethnocentric tendency and place attachment in the context of Generation Z. This research provides a guideline for Croatian companies who want to engage with their existing and potential consumers of generation Z in order to offer suitable products which will satisfied their needs. The present study has a number of limitations that provide opportunities for future research. For future research, it would be necessary to collect different type of sample such as other generation in order to obtain more consistent data and have a better general overview of the findings. Also, there were only a limited number of variables included in the research questionnaire. The recommendation for future research would be in expanding this research with new additional variables to improve the external validity of the current findings The research contributes to the existing literature by providing a comprehensive insight of consumer intentions towards domestic products of Generation Z. The findings of this study will provide respected guidance for the Croatian companies to create an effective marketing strategy in order to achieve a needs of generation Z consumers.

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ORGANIZATIONAL CULTURE IN PRIVATE EDUCATION

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ABSTRACT

Organizational culture as an integral part of the environment with the most significant influence on the individual and the organization as a whole implies an education system that should participate in the development of society in an economically coordinated manner. From the aspect of psychological impact, it is important to emphasize the psychological climate, that is, the individuality of employees in the process of giving meaning to their work, colleagues, superiors, salary, opportunities for advancement, and similar. The psychological climate is a direct consequence of the employee's value system and affects the determination of the relevance of certain values in the work environment. Education is a key determinant of an individual's employability and skill set, which directly affects his ability to access the labor market and advance in it. The interdependence of organizational culture and private education should develop in the long term in the direction of increasing students' competencies in terms of acquiring professional knowledge and critical thinking skills to meet the growing demands of various industries and professions, but also to build their psychological foundations. Since the labor market, as a constantly changing variable, poses increasingly complex challenges for the education category, but also the complete profile of a potential employee, it is a challenge for higher education institutions that requires a change of approach. This also means that the emphasis on existing approaches to education and internal organization should be modified. A different approach to human resources and supporting a positive organizational culture can answer such challenges. Such a process is not simple but requires an interactive relationship of several factors. The arguments presented in the paper are the result of observations, research at the table, analysis methods, and comparison.

Keywords: *human resources, labor market, organizational culture, private/public education, psychological climate*

1. INTRODUCTION

In the modern market society, education represents a fundamental platform for the development of human potential by building certain knowledge and skills of the individual and society in general. In addition, today's requirements set the need to build an individual's psychological foundation, which stands out through the stability of the psychological climate. The concept of psychological climate refers to the semantics that the stakeholders of the organizational structure attach to their work, colleagues, superiors, salary, opportunities for advancement, and others (Čuljat, 2020). In today's changing and dynamic environment, human potential is practically the only resource that cannot be copied and that can be influenced and primarily formed through private education.

Therefore, today's education is becoming more and more important, and thus the demands placed on the management of educational institutions, i.e. the ultimate learning outcomes. Among them are the creation of adequate motivation, communication, reward system, promotion and leadership, and the creation of an organizational culture that acts as a support towards employees and students as users. With the increase in the importance of human potential and their contribution to the creation of specific organizational competencies, especially through the prism of a positive environment, the importance of certain psychological and managerial variables such as organizational culture also increases. According to Brown (1995, 1998) "Organizational culture refers to the pattern of beliefs, values, and learned ways of dealing with an experience that has developed over the history of an organization and are usually manifested in its material arrangements and the behaviors of its members." Organizational culture has become an "inevitable" concept when we talk about the interaction between all members and organizational factors within a work environment. This fact is not surprising considering the importance and cruciality of creating, improving, and maintaining an optimal and productive organizational environment. Where does it start? Organizational culture as a concept belongs to the psychological approach, the beginnings of which start with the emergence of the Human relations school. It can be said that since then organizational psychology, which deals with theoretical and practical aspects of organizational culture, has developed towards a more integrative approach based on anthropology and social psychology (Schein, 1996: 229). Specifically speaking, the psychological approach emphasizes organizational culture as one of the fundamental themes of organizational theory. According to Schein (1996), organizational culture represents "one of the strongest and most stable forces operating in organizations". Organizational culture is defined as one of the most important factors of organizational behavior and is a relevant factor for understanding organizational functioning as the determination of organizational boundaries (Silverthorne, 2004). Only a business environment whose goal is competitiveness and volatility must enable the creation of a working environment within which employees will show readiness for adaptability and continuous progress. For this reason, the organizational culture defines the distinguishing standards between organizations and "enforces" the sense of identity among the employees of the organizations. Furthermore, it promotes commitment to greater aspirations than the individual's interests and motives, which consequently improves the stability of the social aspect of the organization. It can be said that organizational culture is a link that creates and implements standards by which employees should behave, by which the stability and effectiveness of the organization are maintained, that is, by which the organization is enabled to achieve coherence, identity, and direction (Rastegar and Aghayan, 2012). Concretely speaking, organizational culture simultaneously directs and shapes the behavior and attitudes of employees and shows us why some organizations are (un)successful (Mason, 2004).

2. DISCUSSION

Defining private education requires putting it about public education. Public education is under the direct supervision of the state and includes financing with public funds, predominantly from the state budget (Zakon o visokom obrazovanju i znanstvenoj djelatnosti, 2022). In 2023, the percentage of higher education financed by the state was 66% (European Commission 2023). Public education is often characterized by centralized management where power and authority are concentrated at higher levels of the hierarchy. Accordingly, it is also characterized by a vertical structure. On the other hand, private educational institutions are not under the direct control of the state and are financed from private sources such as tuition fees, donations, or private investments (Zakon o visokim učilištima, 1996). In 2023, the percentage of higher education financed from their own income, i.e. from citizen/student payments, was 34% (European Commission 2023).

Private institutions are not financed from public funds, so they have greater autonomy in their management. Private educational institutions enjoy a greater possibility of adapting the curriculum and programs, which enables a faster reaction to changes in the environment. The goal of professional educational institutions, and thus also of private educational institutions, is to train students and acquire knowledge that will enable them to enter the labor market directly (AZVO, n.d.). The structure that enables easier adaptation is a horizontal structure characterized by decentralized decision-making and an emphasis on cooperation and teamwork. Observing education in the context of public institutions defines education as a public good. Characteristics such as availability, non-excludability, inexhaustibility, indivisibility, and public financing confirm the above. However, observing education in the context of a private educational institution indicates that education as a good can also be normal because the demand for it increases with an increase in the income of an individual or society. People are willing to spend a greater proportion of their income on education as they become wealthier. So, given that private education is financed from their income, consumers (students) are willing to spend more if they believe that private education can provide them with more knowledge, opportunities, and possibilities than public education. With this in mind, it is important to give consumers, especially in today's globalized, complex, and dynamic world, the possibility of choice. Given that today's world is more connected than before, competition is also greater than ever. Countries must remain competitors, and accordingly, Andabaka (2006) states that a more educated population leads to a larger number of highly educated labor force, which results in a higher rate of economic progress. Hanushek and Woessmann (2012) explain that every additional percentage of human capital in society leads to an increase in economic growth. Barić and Obadić (2013) continue and state education as a fundamental input of economic and social development. Thus, highly educated workers are usually more productive and capable, leading to increased labor productivity. Higher productivity results in higher production, which stimulates economic growth and competitiveness in the market. The workforce is therefore crucial for economic development. For the economy to be competitive, each individual must take care of his competitiveness. Human capital represents a long-term advantage for the country because acquired knowledge and skills are not easily lost. So that individuals who want to be more competitive in the labor market tomorrow, carefully choose their education today. The market thus offers individuals public education on the one hand and private education on the other. An individual chooses a higher education institution based on several components that he will need in the future when entering the labor market. Table 1 shows that 88.5% of students of private higher education institutions are working (AZVO, 2021) thus setting private institutions at the top of employability and the bottom of student unemployment.

University or type of higher education institution	**Employment rate (%)**	**Unemployment rate (%)**
University of Zagreb	85,5	8,2
University of Split	79,4	15,6
University of Rijeka	88,2	7,6
University of Osijek	80,4	14,2
University of Zadar	78,0	16,2
Public universities	78,4	12,4
University of Applied Science or college	76,7	19,3
Private higher education institution	88,5	6,1

Table 1: Work activity of graduates at the time of the survey about the type of higher education institution

(Source: Agency for Science and Higher Education, Graduates during the pandemic: Results of the fourth national graduate employability survey, 2021.)

Furthermore, AZVO (2021) shows that 28.5% of students worked even before enrolling in a private university, which explains the method of financing, while the same percentage found a permanent job before graduation. After graduation, 18.6% of private college students found a permanent job, that is, 44.4% of private college students found a job within four months after graduation. Given that the majority of private colleges are professional studies, it is not surprising that as many as 63.9% of private college students are employed in the profession, while 65.6% of students are employed. The above is a consequence of the involvement of students in the labor market during their studies through professional practice. In this way, students are familiar with the needs of the labor market, with employers, and expand their network of professional acquaintances. The difference between mandatory professional practice at public and private universities is obvious and is shown in Table 2. Private universities are more focused on providing opportunities for students to experience work, thereby acquiring the knowledge and skills they will need in the future. Professional practice gives students a wind behind them after graduation because they are already familiar with the job, the concept of a superior, the necessary skills, but also with the communication that is needed in a business environment. The foregoing also affects the students' motivation to make even more use of all the available resources that the private university offers them in such a way that they are involved, active, and dedicated to academic success and fulfilling their obligations.

TYPE OF HIGHER EDUCATION INSTITUTION	OPTIONS OF MANDATORY PROFESSIONAL PRACTICE					
	< 1 month in RH	< 1 month abroad	> 1. month in RH	> 1 month abroad	The internship was not mandatory	N
Public	32,3%	0,7%	18,9	1,3%	**46,8%**	4029
Private	40,0%	1,5%	28,1%	3,7%	**26,7%**	135

Table 2: Representation of compulsory professional practice according to the type of higher education institution

(Source: Agency for Science and Higher Education, What after graduation? Results of research on the employability of students who graduated in 2015/2016, 2018.)

All of the above is a consequence of the easier adaptation of the services of private colleges to the current demands of the labor market due to greater autonomy when spending funds. One of the components that play a big role in attracting students is the reputation of the higher education institution, who will be willing to pay for a private institution if it has a better reputation? The higher the employability of the students of a private university, the better the image of the university to the public. So, for a student, a university with a good reputation is an advantage when it comes to employment. Furthermore, specialization and a variety of programs that are more focused on the needs of the labor market are also key. Numerous private polytechnics or higher education institutions make it easier for students to enter the labor market through professional practice and interdisciplinary learning. The development of critical thinking, problem-solving, and quality lecturers are key in preparing students for tomorrow. An individualized approach to students in private educational institutions enables adaptation of the program to the specific interests and needs of students, which results in greater engagement, but also greater motivation for learning. It is the quality of teaching staff, availability, experience, and inspiration that play a key role in building a person. A teacher who is a specialist in his field, who works in a stimulating work environment, and who has opportunities for advancement will be a guiding thread for students to grow and develop. All of the above has a significant impact on the creation and maintenance of a favorable organizational culture.

To better understand the construct of organizational culture, it is necessary to list its key elements, which include organizational values, climate, and managerial style (Žugaj, 1992). Organizational climate represents the way of understanding the company or the organizational unit of the employees. The role of the organizational climate is employee satisfaction and influence on the effectiveness of the work of each participant in the work process and the organization as a whole (Sušanj, 2005). Managerial style refers to the way of behavior in the company. It includes people management, planning, organizing, and evaluation of results. There are several management styles, of which the two most common are listed: autocratic and democratic. The characteristics of the autocratic style are that the manager makes all decisions independently, without consulting subordinates, and with constant supervision. With this style of leadership, power is exclusively in the hands of one person, and the success of the company comes first. The democratic style is characterized by a friendly relationship between managers and workers because there is mutual communication where workers present their suggestions and opinions, and the manager listens to them and considers them before finally making a decision. For these managers, the results of the company are no longer in the first place, but now there is concern for people (Sušanj, 2005). Which style will be the most favorable also largely depends on the organizational behavior, which to the greatest extent has an impact on how all members of the organization will treat each other and how they will communicate with each other. This is very important because only understanding the behavior of each individual within the work context facilitates the detection and understanding of behaviors that can potentially be maladaptive (Robbins and Judge 2007). When we have insight into the behaviors of employees, we are enabled to predict processes that can consequently contribute to the success of the organization, as well as potential changes that work for its betterment (Robbins, 1992). Having that mentioned, the best managerial style that is applicable in private education is the democratic one. That then leads to creating and obtaining other relevant factors in the organization. When the organization successfully recognizes the behavioral patterns of its employees, it can logistically deal with the implementation of specific models. There are several models of organizational culture, but in this paper, we will refer to a few of them. According to Moorhead and Griffin (Žugalj, Šehanović and Cingula, 1999), there are three models, specifically: Parson's AGIL model, Ouchi's model, and Peters-Waterman's approach. The AGIL model is based on a classic sociological approach, where it focuses on the development of a framework for explaining and understanding semantics as well as values in the cultural system. The functions of the model (according to the acronym in English AGIL) are adaptation, goal achievement, connection, and legality. Ouchi's model is based on the synergy of typical American and Japanese organizations, which are characterized by: employment for a long period, a moderately specialized career, individual responsibility, overall concern for people's lives inside and outside work, etc. According to Peteres-Waterman's approach, the characteristics of excellent companies include: focus on action, nurturing good relations with clients and suppliers, encouraging independence, initiative, and entrepreneurship, encouraging people's productivity, developing good, direct, and cooperative management, good and intimate relationships and contacts, diversification, simple formalities, friendly staff and stimulation of open and firm organizations (Žugaj, Bojanović-Glavica, Brčić and Šehanović, 2004). Schein's model, according to which organizational culture is divided into three levels, proved to be one of the more salient models; artifacts (a product of human activity), adopted beliefs and values, and basic assumptions (2010, pp. 24-33; 2009, pp. 22-27). The key element is values because they are closely correlated with the success factors of the organization and directly affect the formation of the other previously mentioned elements (Deal and Kennedy, 1982, p. 21). Each organization implements and implements the features of individual models according to its own needs and aspirations or takes them as a whole. Building on the diversity of models, there is also distinctiveness in the types of organizational culture.

However, despite the existence of a large number of types of organizational cultures, they can be reduced to some more general ones, namely: dominant culture and subculture, strong and weak culture, excellent and terrible culture, stable and adaptive culture, and participative and non-participative culture (Žugaj, 2004). As the name suggests, the dominant culture is one in which the values and actions of the organization are accepted by the majority of employees, while the subculture refers to the culture within the dominant culture that is the result of certain departments or a specific geographical area. A strong culture is represented by the frequent use of specific symbols and sometimes a reluctance to change, while a weak one is represented by a lack of support from the members of the organization, but it is more adaptable. An excellent organizational culture is characterized by "ideal" working conditions such as company life planning, communication between employees and management, standard methods, and the like, while a terrible one is characterized by oppositions (Žugaj et al., 2004). Organizations that operate stably have a stable or constant organizational culture. Whereas organizations that operate in a turbulent manner have a changing or adaptive culture. Distinctiveness in the perception that exists among the members of the organization can be participative or non-participative. It is characteristic of a participative organizational culture that employees participate to a greater extent in the decision-making process, while in a non-participative organizational culture, managers make decisions independently without consulting their subordinates. Some of the most frequently referenced typologies are the multidimensional ones, which were offered by Harrison in 1972, Deal and Kennedy in 1982, Handy in 1985, and Cameron and Quinn in 1999. In addition to the above, there is a whole series of other typologies, such as Scholz's and Mergerison's typology of organizational culture. Deal and Kennedy's typology is determined according to two features, namely the time required to get an idea of the success of the task and the level of risk of a job (Žugaj et al., 2004). Based on the above-mentioned features, four types of organizational culture are identified: "all or nothing"; "bread and games"; "bet on your organization"; and a process culture that develops in a work environment where there is almost no risk and is based on the logistics of work performance and hierarchy. One of the more complex and detailed descriptions of the typology of organizational culture can be seen in the example of the Mergerison. The aforementioned typology is based on the organizational style of behavior as an indicator of culture and makes a distinction between three organizational profiles: bureaucratic, innovative, and social. As such, the model was expanded by Bahtijarević-Šiber (1992) by introducing a larger number of statements that describe in detail diverse aspects of culture. In addition, in the mentioned typology, the starting point is the hypothesis that organizational culture can and should be observed through the dominant orientation and behavioral style of the organization regarding the organizational, social, and development-innovative components. As proof of the complexity and comprehensiveness of the mentioned approach, a model was created with six groups of factors: development, entrepreneurial and social orientation, bureaucracy, decentralization and formalization, and maintenance of the status quo.

3. CONCLUSION

In these extremely difficult economic times, filled with inflation and market volatility, the persistence and sustainability of the private sector of higher education are more than challenging. According to Huisman (1998), higher education institutions are changing according to the needs of the market structurally and organizationally, taking into account the requirements for quality, quantity, and quota. If we were to look at the results of research that dealt with the most important values within the private sector, profitability was the most important and excluded (Van der Wal, De Graaf, and Lasthuizen, 2008). This is not surprising considering that the financial sustainability of a private educational organization depends on the number of students or attendees.

It should be added that there are statistically significant differences in the elements of organizational culture, in favor of the private sector, manifesting itself through knowledge of the organization's mission, goal, and vision, belonging to the organization itself, and the possibility of advancement, i.e. career development (Rman, 2004). Organizational culture is imposed as a starting element for the construction of the education system in general. Its development and applicable understanding are primarily contributed by the dynamics of the labor market, which, under the increasing influence of technology and globalization, requires new knowledge and skills, largely resulting from a positive organizational climate. The research indicates that certain performance indicators of private colleges (high employment rate, low unemployment rate, higher share of professional practice) and horizontal organizational structure represent a specific competence for them. So, many positive factors which are maintained in private education such as market adapted curriculum and programs, labor adapted professional practice, management flexibility, competitiveness, individualized approach, and other mentioned aspects contribute to the productive and motivating organizational behavior which then leads to positive organizational culture. Also, private institutions have the ability to adapt and maintain organizational types and models which are more effective and proactive in a way that is congruent to the optimal organizational behavior. To add, the foundations of organizational culture in private education are laid by the management, that is, the owner of the organization whose goal should be to create a strong, excellent, adaptable, and participatory culture that would consequently affect all participants in the work process. Promotion of the importance of organizational culture by the management's examples. For future research, it would be useful to examine the differences in the sophistication and persistence of certain elements of organizational culture between private and public higher education.

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NATURE AS A STAKEHOLDER - INCLUDING NATURE IN CORPORATE GOVERNANCE PRACTICES TO MEET THE EU CORPORATE SUSTAINABILITY REPORTING DIRECTIVE

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ABSTRACT

As set out in multiple reports, among others, by the Taskforce on Nature-related Financial Disclosures and the WWF Living Planet Reports, corporate activities impact the state of Nature everywhere in the world. The Planetary Boundaries, developed by the Stockholm Resilience Centre, indicate the boundaries for a safe operating space for humanity. Currently, 6 out of 9 boundaries have been transgressed: biosphere, freshwater change, land-system change, climate change, biochemical flows (phosphate and nitrogen), and novel entities. The EU Corporate Sustainability Reporting Directive (CSRD) requires that companies report on how their 'business model and strategy take account of the interests of [their] stakeholders …'. Considering the rapid rate of environmental change and rising environmental crises, Nature is to be acknowledged as a stakeholder in business. Frontrunning companies are exploring ways in which to incorporate Nature as a stakeholder in their governance structures. The paper analyses the role of Nature as a stakeholder in corporate practice and identifies various ways in which Nature can participate in corporate governance and in corporate decision-making processes. For the analysis, legal studies were conducted in several European jurisdictions to identify legal options to give Nature a voice. Additionally, by conducting qualitative research, through interviews, best practices were explored and categorised of companies that have structurally included Nature as a stakeholder in their governance structures. Based on the findings, a taxonomy was developed as well as a toolkit for implementing innovative Nature-inclusive governance models. Both are presented in this paper.

Keywords: *corporate governance, stakeholders, CSRD, Nature, environment, Onboarding Nature Toolkit*

1. INTRODUCTION

This paper analyses the role of Nature as a stakeholder in corporate practice and identifies various ways in which Nature can participate in corporate governance. As set out in multiple reports, among others, by the Taskforce on Nature-related Financial Disclosures (2023) and the WWF Living Planet Reports (2022, 2020), corporate activities impact the state of Nature everywhere in the world. The Planetary Boundaries (2023) are a framework developed by the Stockholm Resilience Centre which identifies the 9 biophysical processes that ensure a liveable, stable, and resilient Earth system. Importantly, human activities impact these processes. The Planetary Boundaries framework identifies the thresholds within which there is a safe operating space for humanity and beyond which the risk of large-scale disruptive and irreversible changes becomes significant. Currently, 6 out of the 9 boundaries have been transgressed due to human activity: biosphere, freshwater change, land-system change, climate change, biochemical flows (phosphate and nitrogen), and the introduction of novel entities (chemicals and plastics). Beyond these limits, the Earth systems may not be able to self-regulate in a healthy equilibrium. The Paris Agreement (2015) and the Global Biodiversity Framework (2022) set 2030 as a critical 'deadline' to ensure a liveable Earth by meeting their established targets. As indicated above, the Planetary Boundaries indicate the biophysical boundaries for a safe operating space for humanity. Besides the relevance for ensuring a safe space for humanity, planetary changes can also be considered from the perspective of the wider community of life (Earth Charter, 2000). The people's document the Earth Charter emphasises the intrinsic value of flora and fauna as do the EU Habitat and Bird Directives (Directorate-General for Environment (European Commission, 2014)) and the Convention on Biological Diversity (1992), which has been recently confirmed in the Kunming-Montreal Protocol (2022). The intrinsic value of flora and fauna further supports considering the impact of human actions on Nature. It does so by expanding the rationale for listening to the voice of Nature from one based on the benefit which this would provide to humans to a moral argument that doing so is ethically consistent with the inherent value of all life. This argument will be further discussed in the theory section of this paper. Governments and businesses impact the Planetary Boundaries and Nature in many ways. For example, deciding to build a dam in a river for power generation changes the river's course and impacts wildlife (such as fish and amphibians in the water and bears, birds and beavers on the shores). Generally, a government initiates such a decision and business actors are engaged to conduct the work. Or, a hotel chain decides to build hotels on the shores of islands in the Atlantic or Indian Ocean, causing many changes to the local environment (IUCN, 2011). Among others, transforming the land by removing the mangrove forests that are a nursing ground to many species of fish and birds; polluting local water bodies during construction; increasing light and noise pollution; and increasing population size and their associated pressures on the environment, through sewage discharge and increased use of local fisheries. All business, whether it be agriculture, mining, fishing, tourism, textile, or the technology sector impact the Planetary Boundaries. This is because humanity, and therefore businesses, live within Nature rather than separate from Nature. Since 2000, many international standards have been developed to raise awareness of the impact of business on Nature. Well-known Corporate Social Responsibility (CSR) standards and guidelines are the UN Global Compact (2000), the Global Reporting Initiative Standards (2022), introduced in 2000 and updated from time to time, the OECD Guidelines for Multinational Companies on Responsible Business Conduct, adopted in 2000 and updated in 2011 and 2023 (OECD Guidelines, 2023), the UN Guiding Principles on Business and Human Rights (2011), the Principles for Responsible Investment (2005, 2017), the Taskforce on Climate-related Financial Disclosures (2017), and the Taskforce on Nature-related Financial Disclosures (2023). Over the last decades, an increasing number of such CSR soft law standards have been formalised in legislation.

Key processes to which business must adhere are: (i) conducting due diligence to assess their (potential) impact on the environment, human rights, labour rights and corruption practices; (ii) identifying and involving their stakeholders in their strategy setting, due diligence processes, and in the development of measures to prevent and address (potential) impacts; (iii) creating transparency about their business models, strategy, due diligence and stakeholder processes, and the risks and problems identified in due diligence assessments; and (iv) developing the measures to counter them (Lambooy, 2023; Colenbrander and Lambooy, 2018). An example of the formal implementation of reporting standards is the EU Corporate Sustainability Reporting Directive (CSRD, 2022), which was implemented and took force in the national law of all EU Member States at the beginning of 2024. These norms now apply to large companies based in the EU and to non-EU companies with an annual turnover above €150 million. This will also increase the transparency of the activities of small and medium enterprises (SMEs) that are a component of large corporation's value chains. The CSRD requires, in articles 19a and 29a, that companies and groups of companies report on how their "business model and strategy take account of the interests of [their] stakeholders …". Companies are obliged to report on the environmental, social and governance (ESG) impacts in their value chains. Hence, they must collaborate with their supply chain partners and customers to collect the necessary information to identify their value-chain ESG impacts. The accompanying reporting instructions, covered in the EU delegated act, the European Sustainability Reporting Standards (ESRS, 2023), contain many Key Performance Indicators (KPIs) concerning the full range of environmental, social, and governance issues, including climate change, biodiversity and human rights. Specifically, the ESRS Chapter E4 concerns biodiversity and ecosystems. This mandatory standard requires that companies assess and disclose detailed aspects of both their dependency and their impacts on Nature. In relation to the latter, the assessment and disclosure requirement extends to the ways in which a company: "... affects biodiversity and ecosystems, in terms of material positive and negative, actual and potential impacts, including the extent to which it contributes to the drivers of biodiversity and ecosystem loss and degradation." This explicit prescription in a widely applicable EU legal framework indicates that Nature is being acknowledged by our society as a stakeholder in business, this is supported by an increasing number of academic studies which indicate the feasibility and the importance of including Nature as an organisational stakeholder (Kujala et al., 2019). ESG mechanisms, like the CSRD, link both the risks and impact inherent to the relationship between business and Nature. This recognition is substantially supported by the evidence that businesses rely heavily on a healthy planet and Nature's bounty for their own functions and survival as 85% of the world's largest companies depend on Nature, that is ecosystem services and biodiversity (S&P Global Sustainable 1, 2023). Furthermore, the World Economic Forum (WEF) has also demonstrated the crucial relationship between business and Nature. Illustrating, in recent publications, that Nature is the foundation of economic growth and job creation, and the most important stakeholder of this decade (WEF, 2020) (Al-Olaimy, 2020). Although businesses acknowledge causing adverse effects on the environment, there are few companies that have incorporated Nature as a stakeholder in their corporate governance models. To effectively consider the interests of the environment in the decision-making process in a company, it is essential to include in those models the voice of Nature, and ideally, to provide that voice with powers (Colenbrander and Lambooy, 2018) (Lambooy, 2022). That is, in a literal way, by appointing people mandated to voice the interests of Nature and to include them in the governance model and processes. Doing so increases awareness of the relationship between business and Nature and makes it more tangible. This is significant as most business activities utilise natural resources, often creating adverse impacts on biodiversity and ecosystems. However, these relationships with Nature are generally not meaningfully accounted for or incorporated into business operations.

When Nature is 'onboarded' in a company, its role in all dimensions of a business is brought to light and businesses are better empowered to make effective and efficient Nature-positive decisions. For example, a positive result from such a decision is a company's business activities creating shared value for the Planet, People and Profit (Porter and Cramer, 2007; European Commission Communication on Corporate Social Responsibility, 2011; Elkington, 1998). The research question which will be addressed in this paper is: *How can Nature be given a voice in corporate governance structures to represent the interests of the environment in the corporate decision-making processes?* This paper begins by overviewing the theories which underpin Nature-governance (Environmental Ethics, Corporate Governance, CSR and Stakeholder Theory) and then shares the four models (Nature as Inspiration, Nature as Advisor, Nature as Director, and Nature as Shareholder) which were identified through theoretical legal research and the analysis of 9 case study companies. By exploring this question, we aim to stimulate companies that are ready to embark on a journey to include Nature as a stakeholder in their governance. Chapter 2 of this paper will lay the theoretical foundation for the study and in Chapter 3 the methodology of the study will be explained. Chapter 4 presents the results and discussion, and Chapter 5 concludes.

2. THEORETICAL FOUNDATION

2.1. Environmental ethics

The role and impact of people on Nature is studied extensively by academics from various disciplines. In support of the need for systemic change, theories have emerged which provide criticisms of 'business as usual' and provide alternative approaches for further development and implementation. Chief among these is Arne Naess's theory of Deep Ecology (Naess, 1973). First shared in 1973 and inspired by breakthroughs in environmental science and ecology, Deep Ecology provides an ethical argument that challenges the approaches currently used by the majority of individuals in industrial societies. Deep Ecology recognizes the intrinsic value of Nature and its constituents, arguing they have an inherent right to be considered in decisions and respected. Intrinsic moral value is found in living things regardless of the usefulness they provide to people, is extended to entities such as ecosystems and rivers, and exists regardless of an entity's perceived level of consciousness. Recognizing the dire circumstances created by the Western society he lived in, Naess called for systemic changes which reach to the roots of a problem's cause, proposing the above ethic as a way to do so. Since the original publication of Deep Ecology, it has received valuable criticism from ecofeminism and social ecology, among others (Plumwood, 1991). These criticisms have rightly identified that the understanding of Nature which Deep Ecology critiques is not universal and that further unique conceptualizations of Nature exist. Nonetheless, the points raised by Naess do merit meaningful consideration, as the problems he identifies are ones which define our most powerful contemporary economic and political actors. The core of his argument, which challenges popular understandings of and relationships with Nature, has sparked decades long discussions and inspired further developments in the field of environmental ethics (Brennan and Lo, 2022). Deep Ecology exists in parallel with Rights of Nature, a legal movement powered by the diverse worldviews of Indigenous peoples and others who wish to formalise within Western legal systems the role of Nature as a subject with a voice rather than an object to be used as a resource. Rights of Nature legally asserts an understanding of Nature as a subject with intrinsic value and interests and an inherent right to exist (Putzer et al., 2022). Currently there are over 500 Rights of Nature cases across more than 45 countries (Kauffman, 2022). While they are by no means identical, Rights of Nature, Deep Ecology, and other diverse expressions of environmental ethics and worldviews of Nature share a similarity of central importance to this paper.

That is, each approach provides a conceptualization of Nature's standing that directly challenges the mainstream Western industrial approach adopted by most businesses. For example, environmental ethics disputes who/what counts as a moral subject by arguing that humans are not the only living things which deserve ethical consideration, and that the natural world and its constituents have an intrinsic moral value and associated rights which must be considered in decision-making processes. Such changes to Western philosophy, which positions Nature as a subject and not an object, are what lay the foundation for recognising Nature as a stakeholder. The intent to move beyond the view of Nature as a resource underlies the 4 different models for onboarding Nature as a stakeholder which are presented in Chapter Three of this paper.

2.2. Corporate governance, CSR and stakeholder theory

Governance is a pluralistic concept that relates to a range of systems (governmental, local, urban, etc.). Corporate governance is generally described as "a system of rules, practices and processes by which a company is directed and controlled" and is concerned with power, accountability and decision-making processes. An important definition of corporate governance was recently adopted by the G20 and OECD countries:
"a set of relationships between a company's management, board, shareholders and other stakeholders. Corporate governance also provides the structure and systems through which the company is directed, and its objectives are set, and the means of attaining those objectives and monitoring performance are determined." (OECD, 2023)

This definition stresses the relational aspect of corporate governance and the way in which goals are formulated, that is, who has influence on formulating the goals and the subsequent corporate practices. Exerting influence requires knowledge about corporate activities. Hence, for shareholders and stakeholders it is key that a corporate board provides information and creates transparency about the business strategy, activities, results and impacts. In the context of CSR and the commonly used Environmental, Social, and Governance reporting framework ("ESG"), the three components of ESG are the pillars used to evaluate a company's impact. The ESG framework is commonly used by investors to evaluate non-financial factors when making decisions. Increasingly, reporting measures require Nature-related disclosures (Taskforce on Nature-related Financial Disclosures, 2023; CSRD, 2022; ESRS, 2023). In this paper, we illustrate how Nature can be considered a stakeholder in corporate governance. 'Nature-inclusive governance' thus refers to the inclusion of the representation, the voice, the vote, and the interests of Nature as a stakeholder, in the decision-making processes, governance structures and systems of corporate and business entities. Consequently, the corporate governance concept of Nature as a stakeholder is also tied to stakeholder theory. Stakeholder theory is an organisational management theory emphasising the interconnected nature of business and the need for governance approaches which account for the diverse entities involved in business (Freeman, 1984) (Donaldson, 1995). Typically, the concept of stakeholder encompasses investors, employees, customers, suppliers, communities, governments, shareholders, and/or trade associations. However, literature shows that it is both feasible and necessary that Nature be recognized as a stakeholder (Kujala, 2019). Nature is both impacted by business activities and at the same time provides goods and services to businesses. 'Onboarding Nature' as a stakeholder offers the potential to help companies meet ESG obligations by formalising the interests of the environment through governance practices and complements the ESG framework. Stakeholder theory is supported by guidelines and reporting frameworks which emphasise the importance of stakeholder engagement.

For example, the OECD Guidelines (2023) state that, as part of their due diligence, companies should meaningfully engage with stakeholders and their legitimate representatives, especially with respect to activities that may significantly impact them, as specified by the Guidelines. They provide an outline of what meaningful stakeholder engagement entails and the environmental impact of business is therein explicitly covered. Consequently, stakeholder theory can be understood as underpinning the ethical obligations and purpose-led nature of a business in relation to their stakeholders, with a particular focus on stakeholder engagement and representation. Therein, the concept of 'Nature as Stakeholder' is an emergent theme; where "nature is [deemed] essential for business and other organisations as it gives resources, affects other stakeholders, and has a moral right to be included in organisational decision-making".

3. METHODOLOGY

We employed mixed methods to study the research question: How can Nature be given a voice in corporate governance structures to represent the interests of the environment in the corporate decision-making processes? We conducted legal studies in several European jurisdictions (the Netherlands, Belgium, Luxembourg and the United Kingdom) to identify legal options under corporate law and contract law to give Nature a voice in corporate governance. Additionally, by conducting qualitative research, through semi-structured interviews, we explored and categorised best practices by companies in said jurisdictions that have structurally included Nature as a stakeholder in their governance structures and/or decision-making processes. We identified 9 progressive companies and other organisations and interviewed a representative about how and why the organisation has included Nature, how they define Nature, and any dilemma's, barriers and successes they have encountered concerning their innovative way of including Nature in their governance. We also explored who has been appointed to represent Nature and what the mandate of the representative is. All interviews were conducted in accordance with the ethical protocol developed in coordination with and approved by Nyenrode Business University in the Netherlands. Based on the findings of both studies, we developed a taxonomy for innovative Nature-inclusive governance models, which is presented in Chapter 4. This taxonomy is supported by a toolkit for other companies that intend to give Nature a voice as a stakeholder. The 'Onboarding Nature Toolkit' (2024) includes ethical, organisational and legal information, options and recommendations aimed at supporting companies and other organisations to embark on including Nature as a stakeholder in their governance structures.

4. FINDINGS AND DISCUSSION

The findings from the case studies concerning progressive companies that have onboarded Nature in their organisation reveal methods of involving Nature as a stakeholder (see Chapter 2 of the Onboarding Nature Toolkit (2024)). Based on the case studies, we developed a taxonomy comprising the following 4 main models: (i) Nature as Inspiration; (ii) Nature as Advisor; (iii) Nature as Director; and (iv) Nature as Shareholder. Each of the case study companies is categorised under one of these four models. The analysis of the 4 Nature-governance models which were implemented by the interviewed case study companies was paired with theoretical legal research which identified additional, not yet implemented, models for Nature-governance. Additionally, desk research provided the researchers with other examples of organisations that have Nature included as a stakeholder in their governance (these organisations were not among the interviewee-case study companies), which were added for illustration purposes. The results of the research are found in Table 1, where both implemented models and theoretical models are presented. It is worth noting that, because company law differs slightly across jurisdictions, the implementation of Nature-governance models must be modified to the specific national jurisdiction within which a company operates.

To narrow the focus of this study and to present the results in a tangible manner, Table 1 grounds the Nature-governance models in Dutch company law. However, the research results show that similar options are available in other EU jurisdictions as well as the UK and US, although the specifics of these are beyond the scope of what is discussed here.

Models	Subcategories	Explanation	Examples emerged from the case studies and desk research
Nature as Inspiration Nature as Inspiration can be expressed in a strong form in which the interests of Nature are the main purpose of the organisation or in a light form as a declaration of intent.	**Option 1**: **Nature as purpose**. (legal)	Stated in the organisation's purpose statement as included in the Constitutional documents/Articles of Incorporation/Articles of Association/Bylaws.	Examples include: The *Land Life Company* states on its website: "We have one mission: to restore. We deliver high-integrity, nature-based solutions to restore degraded land that would not recover without human intervention. Our focus is nature-first". The purpose of the foundation *Pluto Naturfonden*, incorporated under Danish law, is: 'to ensure the preservation of a good and safe climate, endangered animal species and nature in general'. The purpose of the foundation *Commonland Foundation*, incorporated under Dutch law, is to restore ecosystems. The purpose of the foundation *IUCN NL*, incorporated under Dutch law, and a part of the IUCN International network, is: "Our vision is a just world in which nature is valued and protected. Our goal? To safeguard nature as the foundation for all life on earth. In this endeavour we devote special attention to areas that have a high natural value and special biodiversity, which are under pressure, and to the people who depend on that nature." The purpose of the foundation *WWF-NL*, incorporated under Dutch law, is to preserve Nature.
	Option 2: Nature as Inspiration is a **policy-based** commitment to consider the voice and interests of Nature within the governance of the company. (non-legal)	This approach is a light touch, a cultural entrenchment of Nature in the organisation, focusing on the voice rather than creating a legal position for Nature as a stakeholder in the company's governance. It is a purpose-driven and mission-driven declaration of intent that is a first step onto the journey of bringing Nature as a Stakeholder.	An example of Nature as Inspiration is the campaign for 'Mother Nature as CEO' (see Chapter 2 of the Onboarding Nature Toolkit (2024)). This campaign has been initiated by the B Corps companies *Willicroft* and *Blyde*, and this model has now been adopted by over 10 companies.

Nature as Advisor Nature as Advisor can be organised by setting up an advisory council or committee in the legal corporate structure, or through a contractual and/or certification method, or via a non-legal arrangement.	**Option 1:** Nature as a stakeholder embodied in an **Advisory Council or Advisory Committee**. (legal)	The Advisory Council or Advisory Committee has a legal mandate to advise the Board of Directors concerning decisions that matter to Nature. This mandate is included in the organisation's Constitutional documents/Articles of Incorporation/Articles of Association/Bylaws.	In our research we have not identified any specific examples of this model.
	Option 2: Nature represented by an **Advisor to the Board of Directors** via a contractual and/or certification arrangement. (legal)	The room created for the Advisor is a conversational space where key topics are discussed, and recommendations submitted to the Board of Directors.	An example of an individual advisory role, embedded in a contract, was developed by the *Zoönomic Institute* model. The 'Speaker for the Living' has an 'Observer to the Board' role in organisations certified as 'Zoöps'. The Observer is advising the Board of Directors concerning the implementation of the 'Zoönomic Annual Cycle' and the 'Zoöp Model'. This mandate is included in contractual arrangements and certification instructions (see Chapter 2 of the Onboarding Nature Toolkit (2024)).
	Option 3: Nature represented by an **Advisor to the Board of Directors** in a non-legal manner. (non-legal)	The room created for the Advisor is a conversational space where key topics are discussed, and recommendations submitted to the Board of Directors.	An example of an advisory role via a policy-based, non-legal, external/satellite committee framework was developed by *Corporate ReGeneration* (see Chapter 2 of the Onboarding Nature Toolkit (2024)). Companies that have adopted this Nature-governance model include: *Copain* ('Impact board'); *Realco* ('Vision Board'); *NGroup* ('Impact Board'), *Danone BeLux* ('Stakeholder meeting').
Nature as Director Nature as Director is a legal commitment to entrench the voice, the vote, and the interests of Nature in the constitutional, strategic and operational governance of the company. Nature is given protection and a voice (rights), through both a revision of the articles of association, including an upgrade of the objects clause of a company, and an amendment to the organisational governance policy framework.	**Option 1**: Nature represented by a **Managing Director** in a 2-tier board or as an **Executive Director** in a 1-tier Board. (legal).	The creation of a directorship role entrenches Nature's input in the decision-making of the company, through a range of rights: voting, access to information, reporting review, etc. A specific Nature Board Member has equal rights and duties as the other company Directors. As Boards have collective responsibility for the day-to-day management in the interest of the company and its stakeholders, a specific Nature Board Member can bring the perspective of Nature to the table.	An example is: *N.V. PWN Waterleidingbedrijf Noord-Holland* (PWN). PWN is the drinking water company of the Dutch Province of Noord Holland and manager of the natural area of the dunes in this area. The shareholders are the local municipalities. One member of the Executive Board ('*directie*') has the mandate to guard Nature. The Board Regulation also prescribes this position in Articles 2.2 and 4.1. However, PWN's Articles of Association do not provide for this in an explicit way.
	Option 2: Nature represented by a **Supervisory Director** in a 2-tier board or as a **Non-Executive Director** in a 1-tier Board. (legal)	The creation of a supervisory or non-executive directorship role entrenches Nature's input in the decision-making of the company, through a range of rights: voting, access to information, reporting review, etc. Nature as Supervisory Director or	An example is: *Faith in Nature* (see Chapter 2 of the Onboarding Nature Toolkit (2024)). The company's website states: "The objects of the Company are to promote the success of the Company, a. for the benefit of its members; and b. while delivering, through its business and operations, using its best endeavours to: (i) have a positive impact on Nature as a whole and to (ii) minimise the prospect of any harmful impact of the business and operations on Nature, in a manner commensurate

		Non-Executive Director also has equal rights and duties as the other Supervisory and Non-Executive Directors. As Supervisory and Non-Executive boards have a collective responsibility for advising and supervising in the interest of the company and its stakeholders, a specific Nature Supervisory or Non-Executive Board Member can bring the perspective of Nature to the table.	with the size and resources of the Company, taken as a whole." And: "We appointed Nature as a Non-Executive Director on our board of directors and created the ability to delegate the powers to a wider committee. We did this by amending our Articles of Association to entrench the position and used a terms of reference document to outline the duties and responsibilities of the human who acts as the voice of Nature."
Nature as Shareholder Nature as Shareholder is generally based on the steward-ownership model, which is a legal structure that puts an emphasis on purpose over profits; self-governance, and long-term goals (legacy). As a guardian of the company's Nature-driven mission, Nature as Shareholder can be integrated through different forms: a shareholder foundation; a perpetual purpose trust; impact shares; a golden shareholder; and/or neutralised capital.	**Option 1 (steward ownership)**: Nature is represented by the shareholder (e.g.via a foundation). (legal) Steward ownership refers to the situation in which the purpose or mission of the company has been translated into its ownership model.	Nature as Shareholder is a legal commitment to entrench the voice, the vote, and the interests of Nature, through the ownership structure and governance of the company. The shareholder acts on behalf of Nature when exercising its right to vote and receiving dividends. This approach is an embedment of Nature through an alternative ownership model that shifts or expands the scope of decision-making and economic value to a wider pool of stakeholders.	An example is: *Patagonia* is a certified B Corp and a California Benefit Corporation. The incorporator of the company established 2 foundations (see Chapter 2 of the Onboarding Nature Toolkit (2024)). He transferred 100% of the company's voting stock to the Patagonia Purpose Trust, created to protect the company's values, including to minimise the business activities' adverse impact on Nature (equal to 2% of the outstanding stock of the company). Also, he transferred 100% of the non-voting stock to the Holdfast Collective, a non-profit dedicated to fighting the environmental crisis and defending nature (equal to 98% of the outstanding stock of the company). The funding for the activities comes from the Patagonia company: Each year, after reinvesting part of the profits in the company's business, the remainder of the profits is distributed as a dividend to the Holdfast Collective.
	Option 2 (golden share): Nature is represented by a golden shareholder that holds a percentage of the shares (the golden shareholder can be a foundation). (legal)	A golden share is a type of share with special voting rights. Often, its holder can exercise veto power over changes to the company's charter (e.g. its mission as stated in the constitutional purpose clause) and regarding other important decisions such as the appointment and discharge of directors. Guarding Nature can be included as (part of) its mandate.	An example is: *Tony's Chocolonely Mission Foundation* holds special legal rights (including specific voting rights) and must exercise them to uphold and protect *Tony's Chocolonely B.V.*'s (detailed) mission and the 5 Sourcing Principles (which include that the company considers the interest of Nature in its decision-making (see Chapter 2 of the Onboarding Nature Toolkit (2024)).

	Option 3 (impact shares): Creation of 2 or more categories of shares (i.e. common shares and impact shares). The impact shares are held by shareholders committed to guarding the interest of Nature. (legal)	The impact shareholders must use their voting rights to guard Nature. The common shares can vote in their own way. Alternatively, the common shares are entitled to dividend but have no voting rights, whereas the impact shares do have voting rights which they must use to guard the interests of Nature. The impact shares can hold dividend rights or not hold those.	In our research we have not identified any specific examples of this model. An interesting form could be the Luxembourg legal model developed for social enterprises: the Societal Impact Company (SIS)) which has impact shares and common shares.
	Option 4 (neutralised capital): Nature is represented by a foundation that holds the legal title to the shares, including voting rights. The foundation issues 'certificates of shares' (comparable with administrative depositary rights in the US legal system) to 'certificate holders' who are entitled to the economic rights of the shares. (legal)	A foundation (under Dutch law: *Stichting Administratiekantoor*, abbreviated as *Stak*) includes in its Constitutional documents/Articles of Incorporation/Articles of Association/Bylaws that (one of) its task(s) is to ensure guardianship of Nature. In exercising its rights as a shareholder, the Stak must fulfil that task. The holders of the certificates of shares are entitled to the dividends, which will be paid out to them by the foundation.	In our research we have not identified any specific examples of this model.

Table 1: Options to embed Nature as a Stakeholder (inspired by Dutch law)

5. CONCLUSION

The CSRD and the WEF indicate that Nature is a central stakeholder, and companies stand to benefit from efforts to begin conversations with Nature to better understand how their operations impact Earth's natural systems and the Planetary Boundaries. Business has the potential to be a significant driver of change, in large part because of its inherent agility and potential for innovation, and it is therefore crucial to engage business in solutions which address environmental crises. Consequently, as an attempt to amend the root causes of environmental crises, this paper posed the question: *How can Nature be given a voice in corporate governance structures to represent the interests of the environment in the corporate decision-making processes?* To that end, we identified 9 progressive companies that have embedded an explicit voice for Nature. In analysing these case study companies, we identified 4 potential models for onboarding Nature into corporate decision-making processes. Through further legal research, we identified additional theoretical models to be used in future initiatives for representing the interests of the environment in corporate decision-making processes. The research conducted for this paper simultaneously supported the development of the 'Onboarding Nature Toolkit', which inspires companies to include Nature as a stakeholder and provides a practical map on how to do so, supplemented by the legal research and templates. By acknowledging Nature as a stakeholder, companies have the potential to benefit from the following. First, onboarding Nature streamlines and formalises Nature-related decision-making, positioning companies to: (1) be better prepared to effectively conduct due diligence assessments into their value chains; (2) fulfil their duty to engage with stakeholders; (3) to identify problems and their

corresponding solutions in a timely and adequate manner; and (4) to improve knowledge and create transparency surrounding their operations. These 4 possible results will help businesses to meet regulations, such as the CSRD, and fulfil ESG commitments. Further research will be necessary to analyse the types of impacts that Nature-inclusive governance has, the degree to which these models are effective and meaningful ways to recognise Nature as a stakeholder, and the potential risks of greenwashing and how to avoid them. Additionally, there is the opportunity for further research into the theory and philosophies behind Nature governance and the potential for developing additional legal models, in multiple jurisdictions.

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PERSONAL STRATEGIES AS THE BASIS OF DIFFERENTIATION ON THE LABOR MARKET

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ABSTRACT

Personal strategies as the basis of differentiation represent a current, but insufficiently unified and researched field of personal management. Increasingly intense competition on the labor market has given rise to the need to develop personal strategies for individuals on the labor market in order to stand out more easily and achieve their desired careers. The aim of this paper is to describe the functioning of the labor market and the selection process, and to identify the best elements of the differentiation strategy by which individuals stand out best through the stages of the selection process on the labor market. The research was conducted among the student population to gather information about the elements of the differentiation strategy used by students and which elements they think are the most useful. In order to differentiate themselves on the labor market, students engage in activities that nurture their strengths or correct their shortcomings. However, due to the nature of the selection process, it is important that these activities are relevant to the desired position, credibly certified by a certificate or certificate, and that they are visible in the resume as the first step of the selection process. The paper identified some of the fundamental activities that make up the elements of the differentiation strategy on the labor market such as: volunteering and working in the profession, having a knowledge certificate, participating in the work of student associations, volunteering and working outside the profession, success at the university, enrollment in a postgraduate study as well as open and optimized profile on the social network.
Keywords: *diferentiation, labor market, selection process, personal strategy*

1. INTRODUCTION

The labor market, like any other market, can be defined in a narrower sense as a place where supply and demand meet. However, the importance of the labor market becomes clearer when we highlight how important that market is for each individual and organization. From the perspective of the individual, the labor market has multiple meanings. It represents the source of existence and survival, but also the way in which people realize personal aspirations and feelings of fulfillment through career development. Work has an important social function, it enables social interaction, establishment and development of friendship. Work is also a source of social status and prestige, because the status of an individual in society depends to a large extent on what he does and what his profession is. Finally, work also has an important psychological component because it is the source of an individual's identity, his self-esteem and beliefs about his own worth, and for some, a source of self-realization - a state in which an

individual achieves the harmonious fulfillment of his creative potential (Grgurić, 2010). On the other hand, for institutions, companies and other organizations, the labor market is a source of human resources necessary for the successful performance of tasks and set goals. There is another party for which the high-quality functioning of the labor market is extremely important, and that is the state, that is, the entire community. The importance of the labor market for the functioning of the entire community is evident in the fact that part of the gross income of all employees is allocated for various public goods such as parks, roads, health and pension systems, and the like. Also, the state is the largest single participant on the labor supply side through public companies and the general government, employing about half a million people out of a total of one million and five hundred thousand employees in the Republic of Croatia (Statistical overview of the Ministry of Administration, 2016). Great competitiveness on the labor market, but also the desire of individuals to develop their own careers, have transferred the concept of strategy to the personal level. In order for individuals to secure their desired future, it is necessary to think analytically about the steps for building careers, and the core of these steps is determined by personal strategies (Jackson, Firtko & Edenborough, 2007). The first steps in shaping our future are taken through the system of compulsory education. After compulsory primary school education, individuals make their first strategic decisions about the course of their career and business future. Although they are not aware of the meaning of the strategy at the time, that step is the starting point of a personal strategy for career development. After finishing high school, individuals become profiled people aware of the meaning of strategy and the necessary further steps to improve their skills, competences, certificates, but also personality traits that are often necessary for quality employment and successful passage of the selection process on the labor market (Kumar, 2008). A large number of individuals, taking into account their goals and desired careers, choose to go to college. Individuals, apart from satisfying their own aspirations, often look at going to university from a financial perspective, viewing education as an investment activity, i.e. assuming more earnings in the future (Hirschi, & Dauwalder, 2015). Today, people change careers and jobs much more often. And this is one of the reasons why we have to use skills related to the analysis of our career options, job satisfaction, development of new skills and the like much more often. Despite the well-known saying that employees are the most important to any organization, today it is obvious that no one will take care of our career if we do not take care of ourselves. Since this new concept of career is more of a contract with oneself than with the company, it is crucial to develop the skills with which we will successfully manage our career, as well as business and private obligations and roles.

2. ELEMENTS OF THE STUDENTS' DIFFERENTIATION AT THE LABOR MARKET

Due to advances in technology, increased workforce diversity, and changes in organizational structures the nature of careers has changed remarkably over the past three decades (Sullivan, 1999). One important consequence of today's career environment is the increased importance of each employee's performance and the increasing inability of organizations to plan long-term career development or to manage careers for employees (Stickland, 1996). As a result of these changes in how careers developed in today's world of work, employees face an increased need for career self-management because companies are increasingly pursuing a human resource policy that shifts accountability for career management from the employer to the employee (Kossek, Roberts, Fisher, & Demarr, 1998). In order to promote different types of proactive career behaviors among students career, career counseling based on a life-designing approach should focus on promoting the necessary resources, abilities, and readiness that allow clients to actively take charge of their working lives. Several recent theoretical accounts have promoted such an approach.

First, Savickas and Porfeli (2012) have proposed career adapt-abilities are essential for career development, extending Savickas' (1997) earlier conceptualizations of career adaptability. Career adaptability is described as a psychosocial construct that denotes an individual's resources for coping with current and anticipated tasks, transitions, traumas in their occupational roles that, to some degree large or small, alter their social integration (Savickas, 1997). According to Savickas and Porfelli, career adapt-ability is seen as a set of resources that a person can draw on to master challenges in the domain of work. They emerge from the intersection of person-environment relations, represent a form of human capital, and are closely related to the recent notion of psychological capital (Luthans, Avolio, Avey, & Norman, 2007). Specifically, four manifestations of career adapt-abilities are proposed: concern, control, curiosity, and confidence. Each individual and student approaches the strategy of differentiation in a different way. Many individuals analytically consider the steps in their professional development, choosing activities to improve skills, knowledge and abilities that they consider to be their strengths. On the other hand, a large number of individuals focus on areas they consider important, without possessing satisfactory skills in them. In both cases, the goal is the development of personal competencies and standing out on the labor market, that is, successful passage through the selection process on the labor market. Thus our research has identified some of the fundamental activities that make up the elements of the differentiation strategy on the labor market such as: volunteering and working in the profession, having a knowledge certificate, participating in the work of student associations, volunteering and working outside the profession, success at the university, enrollment in a postgraduate study as well as open and optimized profile on the social network.

3. METHODOLOGY

In order to identify certain elements of the differentiation strategy on the labor market, a survey was conducted among final year students of the Faculty of Economics in Zagreb. The sample consisted of 120 respondents, among whom 35% were 5th-year students, 45% were 4th-year students, while the remaining 20% were 3rd-year students of the Faculty. Through 30 survey questions with offered answers and the possibility of supplementing, the respondents were able to express themselves about the activities in which they participate and for what reason they participate in them, in order to be able to assess which activities they consider to be the best elements of a strategy for differentiation on the labor market. In addition, by confronting the viewpoints of the surveyed students and the answers obtained from the survey of employers conducted by the Croatian Employment Service, we can come to the conclusion which elements of differentiation are of the highest quality, that is, what is the best differentiation strategy on the labor market. As part of the survey, respondents were able to state the most desirable characteristics of a candidate for successful employment and achieving a quality employment relationship. 84.2% of students declared that for successful employment, along with motivation, the candidate's abilities and competencies are the most important. 55% of respondents believe that interests are one of the most important elements of successful employment.

4. RESEARCH RESULTS OF STUDENTS PERSONAL STRATEGY

Empirical findings show that motivation based on interests has numerous positive effects on the learning process and its outcomes, but also on work outcomes and work approach (Pahljina-Reinić, 2014). A quarter of respondents believe that individual values are key to successful employment and achieving a satisfactory working relationship. Difficulties in finding workers in 2016 were experienced by almost half of all employers who were looking for workers (49.0%), which is twice as much compared to the results of an earlier survey related to the search for workers in 2014.

The reasons for such a drastic increase should be sought in the reduction of unemployment and, consequently, the reduction of the supply of labor available to employers for employment and labor emigration.

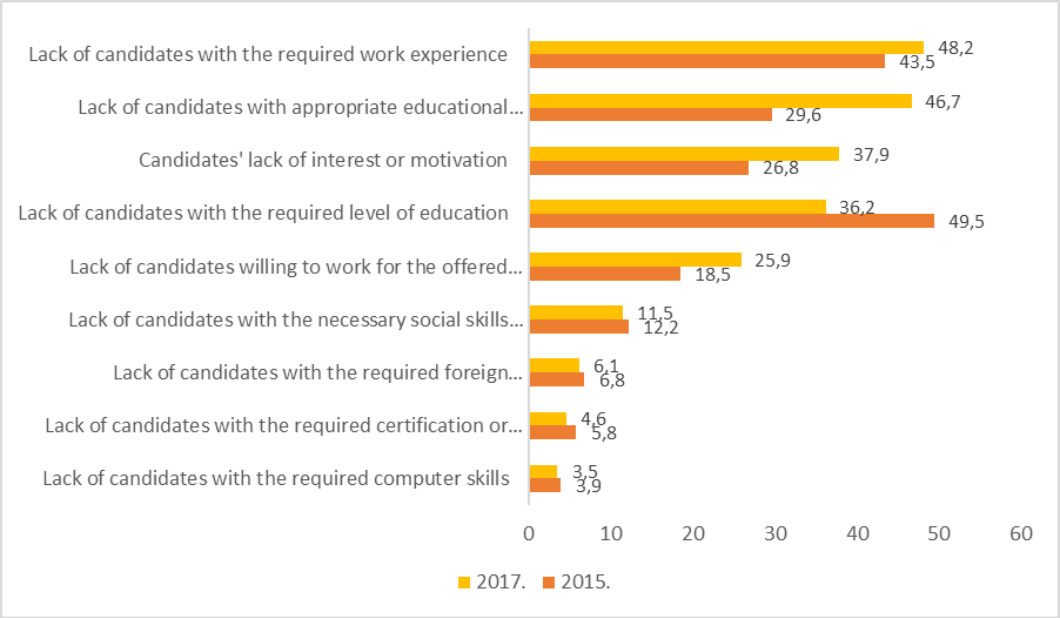

Figure 1: Reasons causing difficulties for employers in finding labor
(Source: Retrieved from HZZ (Croatian Employment Service) - Employer survey 2017)

The most pronounced difficulty in employment that employers face is the lack of workers with the necessary work experience. As shown in Figure 1, 48.2% of surveyed employers encountered the problem of an insufficient number of workers with experience. On the other hand, for students, the lack of work experience significantly reduces the possibility of building the desired career. One of the possibilities to avoid this problem is to work through the student service while studying. Such employment enables students to gain work experience, but also the opportunity to consider different career options.

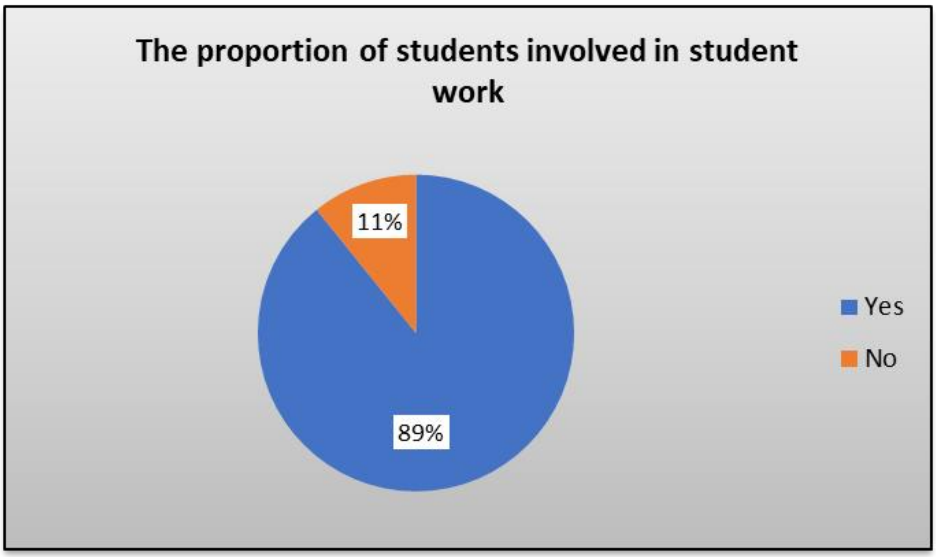

Figure 2: The proportion of students involved in student work

As Figure 2 shows, out of 120 respondents from the Faculty of Economics in Zagreb, 89% of them were involved in some form of student work during their studies. 68.9% of students who are involved in student work cite independence or financial reasons as a reason for employment. 64.2% of students cite the acquisition of new practical knowledge and the application of existing knowledge as reasons for employment, while 50.9% of students also cite easier employment in the future. Easier employment is possible due to employers' easier conviction that candidates with work experience have already experienced the dynamics of working in companies and teams. In addition, by talking to the candidate's former bosses, employers can get a more reliable idea of the characteristics of certain candidates and what they can expect from them. Also, working during studies sends a message to employers about the candidate's motivation and dedication. However, some companies are aware of the high demand for student work in their companies and do not offer monetary compensation for student work. These are companies that are established on the market as leaders in their industries. Instead of monetary compensation, students with this form of work acquire the name of a prestigious company in their resume, but also many new competencies that they develop through volunteer engagement and thus differentiate themselves on the labor market. Students' interest in volunteer work was also confirmed by a survey of students at the Faculty of Economics in Zagreb. According to the survey, which included 120 students, 37.5%, or 45 of them participated in volunteer activities.

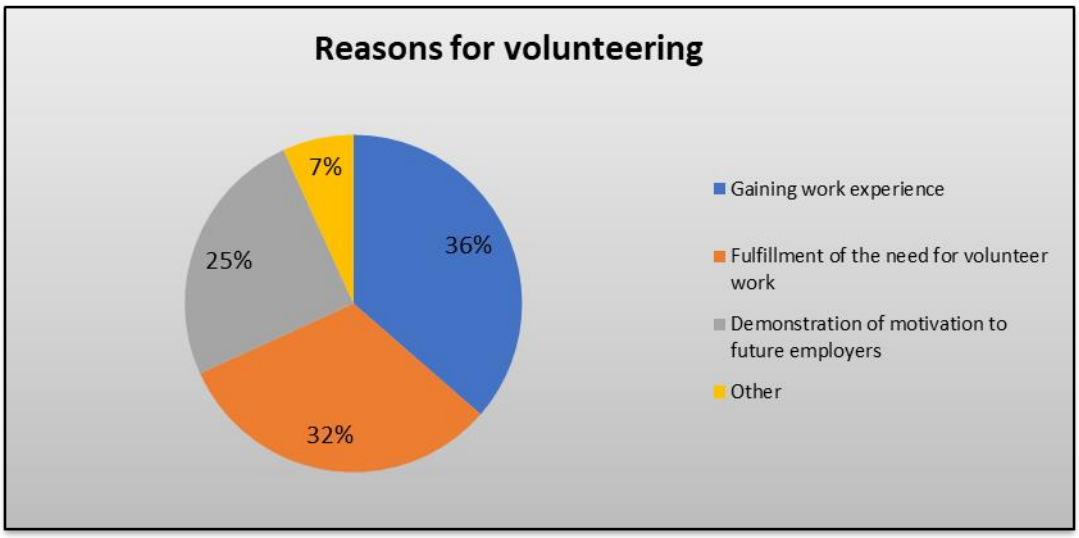

Figure 3: Reasons for volunteering

As shown in the Figure 3, the main reason for 36% of students to enter volunteer activities is to gain work experience, while 25% of students enter volunteer activities to demonstrate their motivation and desire to work to future employers. As both of the stated reasons are a function of differentiation on the labor market, we can say that more than 61% of the surveyed students decide to volunteer in order to differentiate themselves on the labor market. But we can also note that 32% of students volunteer to fulfill their needs for charity work. In this case, it is prosocial action through which individuals look for opportunities to help other people, groups and organizations that need it. In addition to volunteering, work experience through various internships and student jobs, many students prove their skills by certifying their knowledge. According to the research, 61.7% of them have or plan to acquire one of the knowledge certificates. Among them, the most common are certificates of knowledge of English and other languages. The research showed that 38.3% of the surveyed students have a foreign language certificate.

Of the 38.3% of students who have a certificate of knowledge of a foreign language, 42% of students point out that the certificate was a consequence of the education by which the students followed their personal aspirations to acquire new knowledge, while 31.3% point out that their reason for acquiring a foreign language certificate is better differentiation in the labor market. When asked if they were looking for workers for employment in 2016, 72.6% of employers answered yes, which is 9 percentage points more than in 2014, when 63.6% of employers said so. Workers were sought by 77.4% of state or public employers, and with private employers, workers were sought by almost all large and medium-sized employers, four-fifths of small employers, but also more than half of micro-employers and craftsmen. The most frequent way in which employers looked for workers for employment was through the mediation of the Croatian Employment Service, in almost 80% of cases. Apart from mediation by the Croatian Employment Service, an extremely large part of employers, 40.4% to be exact, look for new workers through personal acquaintances. Also, it was determined that 19.2% of respondents are members of one of the student associations. As a reason for joining, 82.6% of them stated the acquisition of new acquaintances with people of similar interests and aspirations, 69.6% of them see membership in the student association as an opportunity to apply theoretical knowledge and gain new practical experiences. 60.9% of respondents joined the work of a student association because in this way they strengthen their self-presentation skills and demonstrate motivation to potential employers, while for 39.1% of respondents the primary reason for joining a student association is to stand out on the labor market.

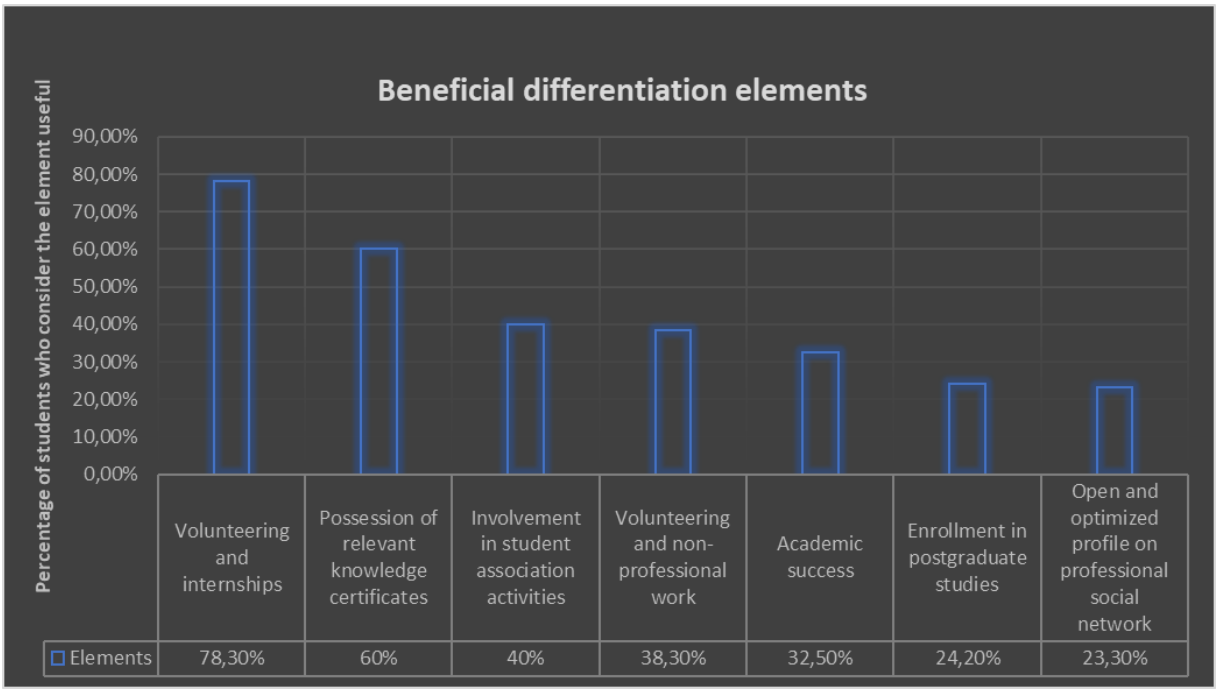

Figure 4: Beneficial differentiation elements in the labor market according to students of the Faculty of Economics and Business in Zagreb

All the listed and explained elements of differentiation serve to enable individuals to acquire the knowledge and skills that students believe they need, both in the process of selection on the labor market and for the improvement of their own skills, abilities and knowledge. Such activities also serve individuals to satisfy their needs for social interaction, to create friendships, and to stabilize their identity and beliefs about their own worth.

5. CONCLUSION

In conditions of high competitiveness on the labor market, and especially on the Croatian labor market, which is characterized by extremely low labor force mobility, individuals are forced to think about career options already in the very early stages of life. By choosing a secondary school, individuals make their first strategic decisions regarding their future profession and career. Many of them decide to go to college to continue their education. Due to the explained mechanisms of the labor market, students face the problem of difficult employment in the desired industry after completing their studies. This problem occurs due to the high concentration of identical university degrees, which do not stand out to individual candidates on the labor market. In order to differentiate themselves on the labor market, students engage in activities that nurture their strengths or correct their shortcomings. However, due to the nature of the selection process, it is important that these activities are relevant to the desired position, authenticated by a certificate or certificate, and that they are visible in the resume as the first step of the selection process. The paper identified some of the fundamental activities that make up the elements of the differentiation strategy on the labor market. The survey of students found that 78.3% of respondents believe that volunteering and working in the profession during studies are quality elements of differentiation. If we compare the students' research with the survey of employers conducted by the Croatian Employment Service, in which it is pointed out that more than 48% of employers face difficulties in hiring due to lack of work experience, we can conclude that by working while studying and gaining experience, students create advantages, in compared to other candidates, which employers undoubtedly look for and appreciate, and that way they can best differentiate themselves on the labor market. In addition to volunteering and working in the profession, during their studies, 60% of the surveyed students believe that having a knowledge certificate is a quality element of differentiation on the labor market. Emphasizing a certificate as an element of a resume convinces employers of the existence of a certain level of our knowledge. This is important because many candidates in the selection process do not manage to prove their knowledge, since the knowledge testing phase, as a rule, follows only after the CV selection. Volunteering and working outside the profession, as well as participating in the work of student associations, enriches students with new knowledge and experiences that will shape them as competent workers in the future. Each of the other elements of the differentiation strategy identified in this paper contributes to a greater or lesser extent to students standing out in the labor market. The greater the number of activities in which students are involved, the more differentiated they are on the labor market, but the more they progress on a personal level as well, in terms of the ability to think critically and shape character.

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UNLOCKING LONG-TERM VALUE: EXPLORING THE DYNAMICS OF ESG PRACTICES IN CORPORATE SUSTAINABILITY

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ABSTRACT

This paper delves into the intricate relationship between Environmental, Social, and Corporate Governance (ESG) practices and their impact on value creation within companies. The primary objective is to substantiate the argument that companies emphasizing ESG factors are predisposed to generate enduring value for their stakeholders. The paper aims to explore the challenges associated with implementing ESG strategies and propose recommendations for overcoming these challenges. The research methodology involves a twofold approach. First, an in-depth analysis of internal data from a prominent publicly listed Fast-Moving Consumer Goods (FMCG) company was conducted. Second, comprehensive interviews were carried out with key stakeholders, encompassing employees, customers, investors, and regulators. The study reveals a comprehensive framework outlining five pivotal ways in which ESG practices contribute to value creation within companies. These include:

- *Facilitating top-line growth by seizing new business opportunities and revenue streams through innovative products addressing environmental and social challenges.*
- *Reducing costs through enhanced operational efficiency, waste reduction, and minimizing regulatory and legal interventions.*
- *Minimizing regulatory and legal interventions, thus averting costly and time-consuming challenges.*
- *Increasing employee productivity by fostering a positive work environment, promoting well-being, and consequently enhancing satisfaction and output.*
- *Optimizing investment and capital expenditures, as companies prioritizing ESG factors tend to make strategic decisions that yield long-term value for stakeholders.*

Keywords: *ESG (Environmental, Social, and Corporate Governance), value creation,stakeholder engagement, sustainable business practices and corporate sustainability, employee productivity and talent attraction, long-term value*

1. INTRODUCTION

Environmental, Social, and Governance (ESG) factors have become increasingly significant in the realm of investment and corporate decision-making. It represents a set of criteria that investors and stakeholders use to evaluate a company's performance and sustainability practices beyond traditional financial metrics. Environmental factors consider a company's impact on the planet, such as its carbon footprint, energy efficiency, and waste management. Social factors encompass the company's treatment of employees, community engagement, diversity, and human rights practices. Governance factors focus on the company's leadership, transparency, ethical standards, and board structure.

Integrating ESG considerations into business strategies helps companies mitigate risks, improve long-term financial performance, enhance reputation, and contribute positively to society and the environment. ESG factors provide a holistic framework for evaluating companies' performance and impact beyond traditional financial metrics. By considering environmental, social, and governance factors, investors seek to identify companies that are well-positioned to manage risks, capitalize on opportunities, and create long-term value for shareholders while contributing positively to society and the environment. Environmental factors encompass a wide range of issues related to sustainability and ecological impact. This includes a company's carbon footprint, energy efficiency, waste management practices, water usage, pollution control measures, and commitment to renewable energy. Investors assess a company's environmental performance through metrics such as greenhouse gas emissions, water consumption and the adoption of environmentally friendly technologies and practices. Environmental concerns have gained prominence due to growing awareness of climate change and resource depletion, prompting investors to scrutinize companies' environmental practices and resilience to climate-related risks. Social factors encompass the impact of a company on societal realms, encompassing relationships with stakeholders such as employees, customers, suppliers, communities, and broader societal concerns. Crucial social considerations encompass labor practices, employee relations, initiatives promoting diversity and inclusion, human rights policies, product safety measures, customer satisfaction endeavours, and community engagement initiatives. Investors gauge a company's social performance through meticulous examination of metrics including employee turnover rates, workforce diversity metrics, customer grievances, community development efforts, and adherence to labour standards and human rights frameworks. Heightened attention to social issues arises amidst escalating calls for corporate social responsibility and ethical business conduct, with investors increasingly acknowledging the significance of addressing social concerns for sustained business prosperity. Governance factors direct attention towards the structural framework, operational processes, and oversight mechanisms steering a company's operations and decision-making procedures. Integral governance considerations encompass the composition and independence of the board, executive compensation practices, shareholder rights, transparency standards, anti-corruption protocols, risk management frameworks, and compliance with prevailing legal and regulatory requisites. Investors scrutinize a company's governance practices to assess its capacity to manage risks, uphold ethical norms, and safeguard shareholder interests. Robust governance correlates with heightened accountability, transparency, and alignment of interests between management and shareholders. Against the backdrop of corporate scandals and governance lapses, governance issues have surged to the forefront, prompting investors to prioritize governance quality in their investment evaluations. A lot of companies have made substantial progress in embedding sustainability into their core operations with specific initiatives undertaken by these firms, such as carbon emissions reduction, promotion of diversity and inclusion, and elevation of corporate governance standards. The goal is to adopt analogous ESG (Environmental, Social, and Governance) practices and play their part in fostering a more sustainable and ethically conscious future. Through the utilization of real-world examples and case studies, the article equips readers with actionable insights into the tangible benefits associated with prioritizing ESG considerations. These advantages encompass improved financial performance, heightened brand reputation, and the facilitation of positive societal outcomes. In essence, the article emphasizes sustainability as an indispensable strategic imperative for businesses, while also commending forward-thinking companies for catalysing meaningful and enduring change.

2. COCA-COLA HELLENIC BOTTLING COMPANY AND ATLANTIC GROUP: AN IN-DEPTH EXAMINATION OF CORPORATE PROFILES AND STRATEGIC DYNAMICS

Coca-Cola Hellenic Bottling Company, commonly known as Coca-Cola Hellenic, is one of the largest bottlers of The Coca-Cola Company's products globally recognised as industry leader in sustainability. Working to create a more sustainable business that makes a positive impact on our people, our communities and our planet. Coca-Cola Hellenic Bottling Company primarily operates within the beverage industry, with a focused approach on the manufacturing, promotion, and distribution of non-alcoholic ready-to-drink beverages. Its extensive product portfolio encompasses a diverse array of sparkling and still beverages, ranging from carbonated soft drinks to juices, bottled water, energy drinks, and ready-to-drink teas and coffees. With a widespread geographic presence, Coca-Cola Hellenic conducts operations across multiple countries spanning Europe, Eurasia, and Africa, serving consumers in 28 distinct nations, including Greece, Nigeria, Russia, Romania, Bulgaria, among others. Leveraging a network comprising bottling plants, distribution centres, and retail channels, the company adeptly caters to varied consumer preferences and market exigencies. While nuanced variations may exist based on regional and cultural dynamics, Coca-Cola Hellenic remains steadfast in its commitment to core values such as sustainability, integrity, excellence, and innovation. The company prioritizes responsible business practices, environmental stewardship, and active community engagement, considering them integral facets of its operational ethos. Additionally, Coca-Cola Hellenic places considerable emphasis on customer satisfaction, product quality, and ongoing enhancement across its offerings. Moreover, the company endeavors to cultivate a workplace environment characterized by diversity, inclusivity, collaborative ethos, mutual respect, and avenues for professional growth and development. Overall, Coca-Cola Hellenic's presence in multiple industries, extensive geographic reach, and adherence to core values underscore its status as a prominent player in the global beverage market, with a focus on sustainable growth and value creation. The Atlantic Group stands as a diversified conglomerate operating across multiple industries, notably including the Food and Beverage sector. Within its operational purview, the Atlantic Group engages in activities encompassing the production, distribution, and marketing of food and beverage products. The geographic reach of the Atlantic Group can vary, contingent upon the specific industries it operates within and its strategic expansion initiatives. Its presence may span local, regional, national, or even international spheres. While nuanced variations may exist across its subsidiaries and business units, the Atlantic Group adheres to common core values indicative of its organizational ethos. Integrity serves as a foundational principle, guiding business conduct with honesty, transparency, and adherence to ethical standards. Embracing innovation is another key tenet, as the Group harnesses innovative strategies to propel growth, optimize processes, and deliver value to its stakeholders. Moreover, customer focus is paramount, with a steadfast commitment to prioritizing customer satisfaction and cultivating enduring relationships. Furthermore, sustainability lies at the heart of the Atlantic Group's operations, as it endeavours to integrate sustainable practices into its business frameworks, thereby minimizing environmental impact and contributing to social responsibility. Lastly, a pursuit of excellence underscores the Group's aspirations, with a steadfast dedication to achieving excellence across all facets of its operations, spanning product quality, customer service, and operational efficiency. Also, Hoepner et al. (2021) in their research explore the nuanced interplay between ESG engagement and portfolio credit risk, shedding light on the intricate relationship between environmental, social, and governance factors and their impact on financial risk management. By examining the implications of integrating sustainability principles into investment strategies, their study underscores the importance of holistic ESG integration in mitigating financial risks and fostering long-term value creation.

In summary, the Atlantic Group's expansive portfolio, diverse geographic presence, and steadfast adherence to core values underscore its commitment to growth, innovation, and responsible business practices across multifarious sectors.

3. ASSESSMENT OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES IN COCA-COLA HELLENIC BOTTLING COMPANY

Coca-Cola Hellenic has undertaken a multitude of environmental initiatives geared towards mitigating its carbon footprint and fostering sustainability. These initiatives encompass enhancements in water stewardship, energy efficiency, and waste management throughout its operational spectrum. The company has established ambitious environmental objectives, including reductions in water consumption, greenhouse gas emissions, and the augmentation of renewable energy utilization within its production facilities. Moreover, Coca-Cola Hellenic places a premium on social responsibility, channelling investments towards community development, advocacy for diversity and inclusion, and the endorsement of initiatives promoting public health and well-being. Through active engagement with stakeholders, encompassing employees, local communities, and non-governmental organizations (NGOs), the company endeavours to address societal issues and make affirmative contributions to society. Notably, Coca-Cola Hellenic's corporate social responsibility endeavours prioritize domains such as education, youth empowerment, and the provision of clean water and sanitation facilities in marginalized communities. In terms of governance practices, Coca-Cola Hellenic adheres to elevated standards of corporate governance and transparency, fortified by robust policies and procedures designed to uphold ethical conduct and foster accountability. Oversight of corporate governance practices, encompassing risk management, compliance, and the maintenance of integrity in business operations, is vested within the purview of the company's board of directors. Furthermore, Coca-Cola Hellenic consistently provides stakeholders with comprehensive and transparent insights into its governance practices, financial performance, and sustainability endeavors through regular reporting mechanisms. The integration of Environmental, Social, and Governance (ESG) considerations into Coca-Cola Hellenic's overarching business strategy serves as a guiding compass for decision-making processes and the delineation of long-term sustainability objectives. Recognizing the pivotal role of ESG factors in fortifying business resilience, bolstering brand equity, and fostering enduring value for shareholders, the company remains steadfast in its commitment to evaluating and enhancing its ESG performance. Continual innovation and collaboration with stakeholders are leveraged as key avenues to address evolving sustainability imperatives. In essence, Coca-Cola Hellenic demonstrates a steadfast commitment to ESG practices, manifesting through comprehensive initiatives spanning environmental, social, and governance dimensions. By championing sustainability and espousing responsible business practices, the company aims to effectuate positive societal impact while simultaneously ensuring sustained success and value creation for all stakeholders involved. Environmental, Social, and Governance (ESG) factors have become increasingly significant in the realm of investment and corporate decision-making (Clark & Urwin, 2018). It represents a set of criteria that investors and stakeholders use to evaluate a company's performance and sustainability practices beyond traditional financial metrics. The company continues to push for progress in this area and intend to be as accountable on their sustainability targets as we are on the financial ones. In addition, provide more detail on our sustainability-related policies, programmes and performance in several other reports including; GRI, UN Global Compact, Socio-economic impact, SASB Index and EU Taxonomy. The Coca-Cola Hellenic Bottling Company (CCHBC) has pledged to achieve net zero emissions across its entire value chain by 2040 and actively supports the European Commission's action plan aimed at redirecting capital flows towards a more sustainable economy.

A pivotal component of this plan is the EU Taxonomy, serving as a classification system for economic activities deemed environmentally sustainable, in alignment with the EU's Green Deal objectives. Despite being domiciled in Switzerland and thus not subject to the EU Non-Financial Reporting Directive (NFRD) or obligated to report using the EU Taxonomy, CCHBC has voluntarily adhered to other requirements of the NFRD since 2018. However, in 2022, delays occurred in the adoption of the EU Taxonomy delegated act for the remaining four environmental objectives. Subsequently, the EU Commission preliminarily approved a new delegated act in June 2023, targeting economic activities substantially contributing to various environmental objectives, including the sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. However, the primary economic activity of CCHBC, namely the manufacturing of beverages and food products, was not considered eligible in the context of the "transition to a circular economy" objective, which was identified as an area where the Group could substantially contribute. Moreover, no other taxonomy-eligible activities were identified within the scope of CCHBC's operations. Consequently, all three key turnover metrics, including CapEx and OpEx, were reported as 0% taxonomy-eligible and subsequently 0% taxonomy-aligned. This underscores the company's commitment to transparency and compliance with evolving regulatory frameworks, despite limitations in its eligibility for certain sustainability classifications under the EU Taxonomy. In 2023, company will remain alert to the evolving EU legislation around corporate sustainability disclosure requirements, and we will continue our work to maintain best-in-class ESG reporting. Sustainability strategy has been endorsed at the highest level in business and is being embedded into all operations. The Social Responsibility Committee of the Board of Directors establishes principles governing social and environmental management and oversees the performance management to achieve our sustainability goals (social, environmental). It approves their sustainability strategy, commitments, targets, and policies. Sustainability Steering Committee led by the CEO, with members from Supply Chain, Procurement, Corporate Affairs & Sustainability, Finance, Risk, Commercial functions meets quarterly and discusses performance, approves new strategic initiatives and allocates resources. At the local/market level, General Managers have frontline responsibility. They monitor sustainability performance regularly, localize sustainability strategy for their market, prioritise the initiatives, and together with the local leadership teams are responsible for the execution of sustainability goals. As they mention in their report, employees are the key enablers for integrating sustainability principles into the business. Sustainability serves as a foundational pillar in our envisioned trajectory of future growth, with our sustainability objectives encapsulated within the framework of "Mission 2025," intricately woven into our expansion agenda. Committed to optimal sustainability, we pledge to fulfil targets regarding recycled content, collection initiatives, and achieving net-zero emissions across our value chain by 2040. To realize these commitments, we actively pursue innovative solutions in sustainable packaging, packaging recovery systems, emissions reduction strategies, and water conservation and stewardship practices.

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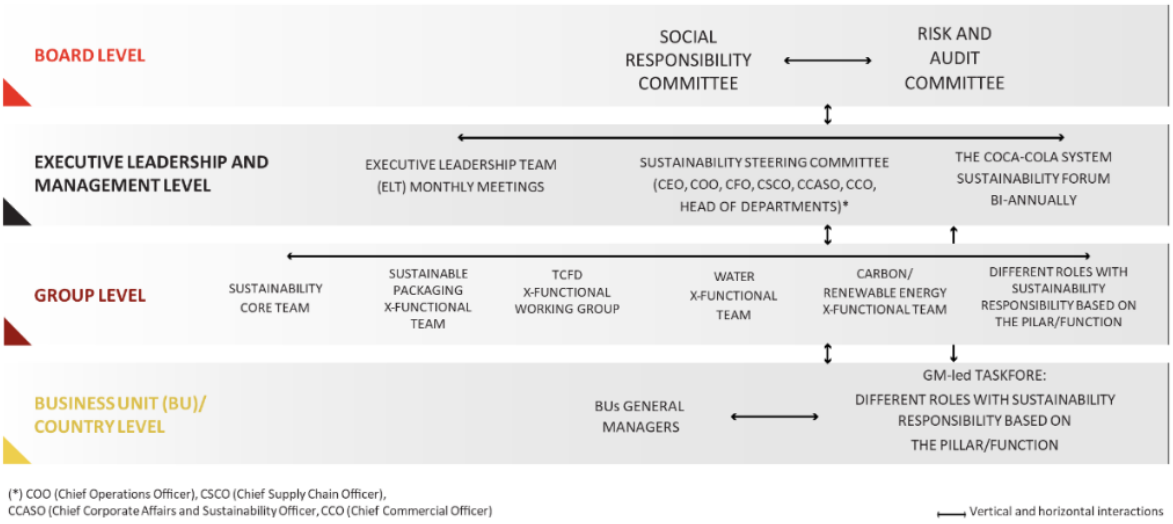

Picture 1: Coca-Cola Hellenic Bottling Company sustainability report (Source: https://www.coca-colahellenic.com/en/a-more-sustainable-future)

The Mission 2025 approach towards achieving sustainable growth is anchored in a stakeholder materiality matrix and is fully aligned with the United Nations Sustainable Development Goals (SDGs) and their corresponding targets. Our strategic framework encompasses six key focus areas that mirror our value chain: emissions reduction, water use and stewardship, Packaging (aiming for a World Without Waste), ingredient sourcing, nutrition, and fostering the well-being of our people and communities. Through dedicated efforts across these focal points, we strive to advance sustainability while addressing pertinent societal and environmental challenges. Also, Heinkel, Kraus, and Zechner (2001) examine the effect of green investment on corporate behavior, providing insights into how environmental initiatives influence firms' strategic decisions and financial performance. Their study contributes to understanding the motivations behind green investment and its impact on companies' environmental practices, governance structures, and long-term value creation strategies.

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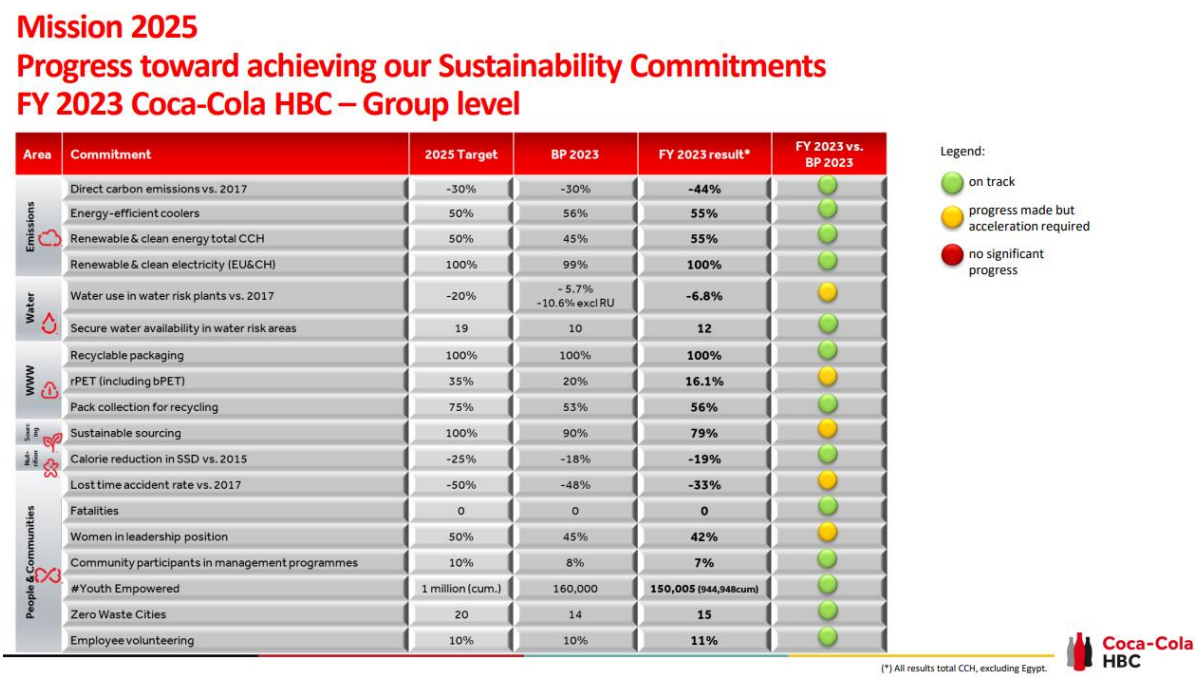


Picture 2: Mission 2025, Progress toward achieving Sustainability Commitments (Source: Coca-Cola HBC Mission 2025 report)

4. COCA-COLA HELLENIC BOTTLING COMPANY: A COMPREHENSIVE EXAMINATION OF SUSTAINABILITY INITIATIVES AND PERFORMANCE

Coca-Cola Hellenic Bottling Company (CCHBC) annually publishes its sustainability report, delineating its steadfast dedication to environmental, social, and economic stewardship. This comprehensive document typically encompasses a myriad of sustainability initiatives undertaken by the company across its operational spectrum. Within the sustainability report, CCHBC is likely to spotlight endeavors aimed at curbing its environmental footprint by implementing sustainable practices across its value chain. These initiatives may encompass strategies to curtail water usage, mitigate energy consumption, and optimize packaging materials to bolster recyclability. Furthermore, the sustainability report is expected to underscore CCHBC's unwavering commitment to social responsibility, spotlighting initiatives aimed at bolstering local communities, fostering diversity and inclusivity within its workforce, and upholding ethical sourcing practices. Economically, CCHBC is likely to showcase its endeavors to generate value for its stakeholders while upholding financial stability. This may entail investments in innovation, enhancements in supply chain efficiency, and the adoption of responsible governance practices. In essence, the sustainability report serves as a comprehensive portrayal of CCHBC's ongoing efforts to seamlessly integrate sustainability into its overarching business strategy. Through this document, CCHBC underscores its resolute commitment to cultivating long-term value, while concurrently minimizing its environmental footprint and making positive contributions to society at large.

5. EXPLORING ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES: A COMPREHENSIVE STUDY OF ATLANTIC GROUP

The sustainability report published by The Atlantic Group offers a comprehensive depiction of the company's unwavering commitment to environmental sustainability, social responsibility, and robust corporate governance. This meticulously crafted document illuminates the group's endeavors to seamlessly integrate sustainability principles across its business operations and value chain, alongside its strides towards achieving pivotal sustainability objectives and milestones. Within the realm of environmental practices, the report delineates an array of

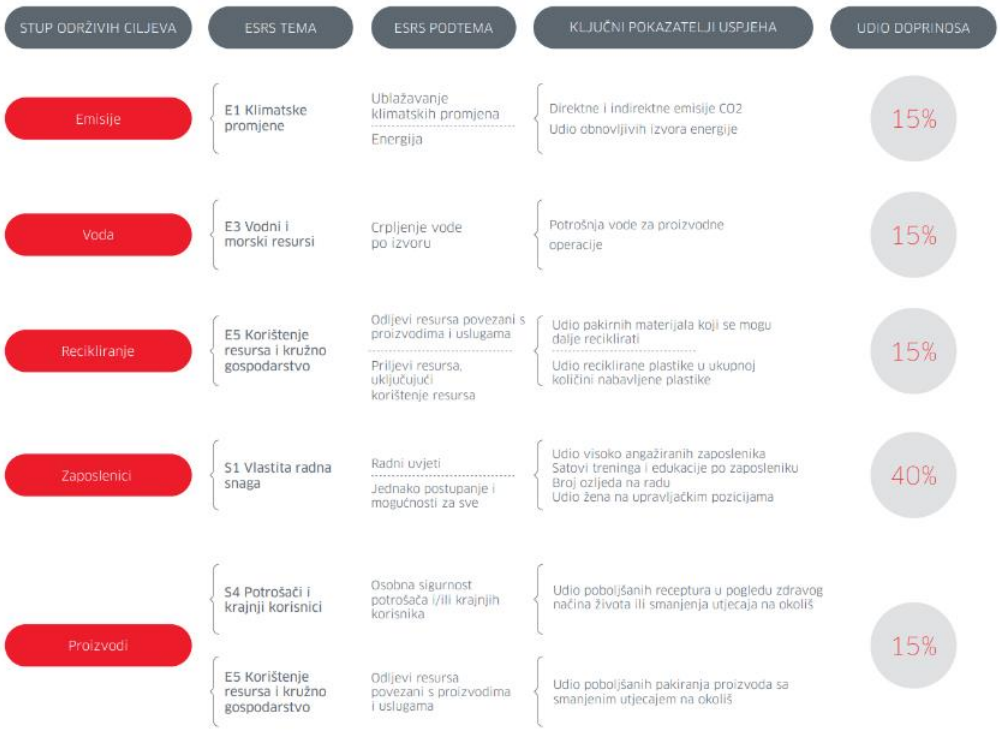
initiatives aimed at mitigating carbon emissions, conserving resources, and curtailing waste generation across the group's diverse array of industries. Noteworthy measures include investments in renewable energy sources, enhancements in energy efficiency, and the adoption of sustainable sourcing practices for materials. On the social front, the report underscores The Atlantic Group's proactive engagement with local communities, its commitment to employee well-being, and its steadfast advocacy for diversity and inclusion within its workforce. Furthermore, the report underscores the company's philanthropic endeavors, volunteer initiatives, and collaborations with non-governmental organizations (NGOs), all geared towards fostering positive societal impact. In terms of governance, the report accentuates The Atlantic Group's adherence to stringent ethical standards, transparent corporate governance frameworks, and robust risk management protocols. Key facets encompass oversight by the board of directors, periodic compliance audits, and transparent reporting mechanisms elucidating governance-related matters. Overall, the sustainability report stands as a testament to The Atlantic Group's steadfast dedication to responsible business practices. It underscores the company's ongoing efforts to generate long-term value for stakeholders while concurrently minimizing its environmental footprint and catalyzing social development. Through a holistic approach encompassing environmental stewardship, social responsibility, and corporate governance excellence, The Atlantic Group exemplifies its commitment to sustainable business practices and its role as a conscientious corporate citizen. The Atlantic Group implements a range of environmental practices across its diverse industries to mitigate its environmental impact. These initiatives may include improvements in energy efficiency, waste reduction efforts, and the adoption of sustainable sourcing practices. Depending on its operations, the group may invest in renewable energy, establish recycling programs, or integrate eco-friendly technologies to reduce its carbon footprint. Social responsibility is a key priority for the Atlantic Group, encompassing support for local communities, promotion of diversity and inclusion, and the maintenance of fair labor practices. The group engages in philanthropic activities, volunteer programs, and partnerships with NGOs to address social issues such as education, healthcare, and poverty alleviation. In sectors like retail and hospitality, the Atlantic Group emphasizes customer satisfaction, employee well-being, and the creation of safe and inclusive environments for all stakeholders. Moreover, the Atlantic Group upholds high standards of corporate governance, characterized by transparent and accountable leadership, effective risk management, and ethical business practices. Established governance structures, including a board of directors, oversee corporate governance matters and ensure compliance with regulations and industry standards. Transparency and disclosure are integral components of the group's governance practices, with regular reporting on financial performance, governance principles, and adherence to ethical standards. ESG considerations are integrated into the Atlantic Group's business strategy, guiding decision-making processes and shaping long-term goals and priorities. By incorporating ESG principles into its operations, the group aims to enhance resilience, mitigate risks, and create value for all stakeholders. Continuous monitoring, evaluation, and improvement of ESG performance are embedded within the corporate culture, reflecting the company's commitment to sustainability and responsible business practices. Zhang and Jia (2019) investigate the dynamics between corporate environmental responsibility engagement and the cost of debt, providing empirical evidence of the financial implications of ESG practices on firms' capital structure decisions. Their research underscores the significance of environmental, social, and governance considerations in shaping firms' access to capital and their overall financial performance. Overall, the Atlantic Group demonstrates a steadfast commitment to ESG practices aimed at promoting environmental stewardship, social responsibility, and sound governance across its business activities. At the Atlantic Group, sustainability is viewed as a process that creates new opportunities for development and fosters a better future for future generations.

Strategic thinking and responsible action benefit both the team and the wider public. By integrating economic, social, and ecological dimensions into daily activities, the company drives growth and contributes to the betterment of the entire community. Recognizing both the opportunities and risks of sustainability, the company acts strategically across all levels of business operations, including new product development, technological processes, employee development, customer and consumer communications, investor relations, and supply chain management. Aligning with critical global initiatives such as The European Green Deal, the Atlantic Group has defined five clear sustainability goals that are integrated into all strategic business plans:

- Reduce greenhouse gas emissions
- Responsible use of water
- Move towards the recycling of all plastic waste
- Employee satisfaction, safety, and gender equality
- Constant improvement of recipes and nutritional value, clean labels, and a reduction in packaged material
- To achieve its goal of reduced environmental impact, Atlantic Group has built and developed systems for sustainable business practices and responsible energy use through continual monitoring.

Atlantic Group's quality and environmental policies are articulated within the overarching framework of its environmental management system, which is rooted in the company's foundational declaration outlining its principles and intentions concerning environmental protection. This document serves as the cornerstone for Atlantic Group's business operations, guiding the establishment of both general and specific objectives for environmental preservation. The company is steadfastly committed to the judicious utilization of energy sources and raw materials, responsible waste management practices, and the perpetual mitigation of adverse environmental impacts across its production processes and final products and services. In pursuit of reducing its environmental footprint, Atlantic Group prioritizes the minimization of energy sources, water, and natural gas usage, while also employing optimal materials in its technological processes. Furthermore, the company strategically plans distribution routes and leverages Transport Management Systems to optimize gasoline consumption. All environmental protection measures undertaken by Atlantic Group adhere strictly to national legislative requirements and comply with regulations in the various countries where the company operates. The company aims to provide comprehensive solutions for environmental protection through various means, including the resolution of water waste and emission measurement issues, waste management practices across all sectors, and the careful and compliant handling of hazardous waste and substances. Additionally, Atlantic Group conducts measurement and monitoring of airborne emissions and ensures the compliant disposal of unsatisfactory raw materials, finished products, and packaging. The company emphasizes the adoption of "clean technology" and adherence to environmental standards in the design and construction of its facilities and plants. Proper drainage and reclamation of sewage systems, as well as laboratory monitoring by authorized entities, further contribute to Atlantic Group's environmental stewardship efforts. As Eccles and Serafeim (2013), in their research delve deeply into the organizational repercussions of corporate sustainability practices, offering nuanced insights into the transformative effects of ESG considerations on internal processes and overall performance, they highlight the pivotal role that environmental, social, and governance factors play in shaping the strategic direction and operational resilience of modern corporations. Overall, Atlantic Group demonstrates wholehearted dedication to environmental protection through the selection of environmentally friendly technologies and services, robust risk management practices, and incentives aimed at promoting energy

conservation. Through these concerted efforts, the company aims to continually protect and positively impact the environment, aligning its operations with sustainability principles and contributing to a greener future.



Picture 3: Key sustainability factors Atlantic Grupa
(Source: Atlantic Group Sustainability report)

AG KPI - okoliš	2020. osnovica	2021.	2022.
Ukupne emisije (t CO2)	49.694	30.935	24.304
Ukupne emisije (t CO2e)*	51.358	32.595	25.068
Direktne emisije (t CO2e)*	19.375	20.090	19.488
Indirektne emisije (t CO2)	31.983	12.505	5.579
Udio obnovljivih izvora energije*	0,2%	22,5%	32,4%
Zahvat vode za proizvodne aktivnosti (m3/t proizvoda)	2,51	2,42	2,20
Ukupno energija (TWh)	137,0	142,2	140,4

Picture 4: Key Performance Indicator Savings
(Source: Atlantic Group Sustainability report)

Stup PROIZVODI Sažeti rezultati za sve brendove Atlantic Grupe	**UOM**	**2020.**	**2021.**	**2022.**
Nove recepture u kategoriji proizvoda s tvrdnjom*	broj	48	48	48
	% u svim novim recepturama	-	-	75
Unaprijeđeno pakiranje sa smanjenim utjecajem na okoliš (lakša ambalaža i druge inovacije)	broj (SKU)	161	8	83
	% u svim unaprijeđenim ambalažama	-	-	84

*PROIZVODI S TVRDNJOM uključuju zajednički cilj zdravijeg načina života ili smanjenja utjecaja na okoliš i uključuju: organski, certificirani *Cocoa Horizons*, veganski, certificirani *Rainforest Alliance* bez dodanog šećera, s manje šećera, bez aditiva, bez palminog ulja, bogato vlaknima, poboljšana nutritivna vrijednost, niska energetska vrijednost, funkcionalni sastojci, smanjenje prehrambenog otpada.

Stup RECIKLIRANJE Sažeti rezultati za sve brendove Atlantic Grupe	**UOM**	**2020.**	**2021.**	**2022.**
Ambalažni materijali koji se mogu dalje reciklirati	% od ukupne količine ambalaže koja završi na tržištu	89	93*	92
Udio reciklirane plastike	% u ukupnoj količini nabavljene plastike	0	15	17

Picture 5: Pillars of Atlantic Group Sustainability report
(Source: Atlantic Group Sustainability report)

6. IMPACT OF ESG PRACTICES ON CONSUMER PERCEPTION, BRAND LOYALTY, AND MARKET POSITIONING: A COMPARATIVE ANALYSIS OF COCA-COLA HELLENIC AND ATLANTIC GROUP

ESG (Environmental, Social, and Governance) practices wield considerable influence over consumer perceptions, brand allegiance, and market standings for both Coca-Cola Hellenic and Atlantic Group. In terms of consumer perception, ESG practices have played a fundamental role in shaping consumer attitudes towards both Coca-Cola Hellenic and Atlantic Group. By demonstrating a steadfast commitment to sustainability, social responsibility, and ethical governance, these companies have garnered trust and credibility among environmentally and socially conscious consumers. Initiatives such as carbon emissions reduction and water stewardship resonate with consumers' preferences for environmentally friendly brands, thereby enhancing the companies' reputations as responsible corporate citizens. Moreover, ESG practices have deepened brand loyalty by fostering emotional connections with consumers who share similar values. Coca-Cola Hellenic's initiatives to support local communities, promote diversity and inclusion, and engage in philanthropic activities resonate strongly with consumers, thereby nurturing long-term loyalty and positive brand associations. Regarding market positioning, ESG practices have significantly enhanced the market positions of both Coca-Cola Hellenic and Atlantic Group by differentiating their brands from competitors and appealing to a broader audience. As consumers increasingly prioritize sustainability and social impact in their purchasing decisions, companies that prioritize ESG considerations gain a distinct competitive advantage in the market.

By emphasizing ESG factors, both companies have positioned themselves as leaders in corporate sustainability within their respective industries, thereby attracting environmentally conscious consumers and investors who value strong ESG performance. In conclusion, ESG practices have played a crucial role in shaping consumer perceptions, fostering brand loyalty, and strengthening market positions for both Coca-Cola Hellenic and Atlantic Group. These practices underscore the companies' unwavering commitment to sustainable growth and responsible business practices across diverse portfolios of industries.

7. THE IMPACT OF ESG PRACTICES ON STAKEHOLDER RELATIONSHIPS: A COMPARATIVE ANALYSIS OF COCA-COLA HELLENIC AND ATLANTIC GROUP

Investors:
ESG practices serve as a catalyst for investor confidence, attracting socially responsible investors who prioritize sustainability and ethical conduct. Both Coca-Cola Hellenic and Atlantic Group have leveraged ESG initiatives to mitigate risks, enhance long-term shareholder value, and access capital from ESG-focused funds, thus fostering robust relationships with investors.

Employees:
The adoption of ESG practices fosters positive workplace cultures, promoting employee engagement, retention, and satisfaction. Employees exhibit higher levels of motivation and pride in working for companies that prioritize sustainability and social responsibility. Through initiatives such as employee volunteer programs and diversity initiatives, both Coca-Cola Hellenic and Atlantic Group have strengthened relationships with their workforce.

Customers:
ESG practices resonate strongly with environmentally and socially conscious consumers, enhancing brand loyalty and attracting new customers. Coca-Cola Hellenic and Atlantic Group's commitment to minimizing environmental impact, supporting local communities, and promoting diversity and inclusion has positively influenced consumer perceptions, driving value and loyalty.

Suppliers:
ESG practices encourage transparency and accountability throughout supply chains, fostering stronger relationships with suppliers. Both companies prioritize ethical sourcing, fair labor practices, and responsible supply chain management, thereby enhancing collaboration and promoting sustainable business practices among suppliers.

Regulators:
Adherence to ESG principles aids in maintaining compliance with regulations and industry standards, reducing regulatory risks and liabilities. Coca-Cola Hellenic and Atlantic Group's proactive approach to environmental protection, social welfare, and corporate governance has earned recognition from regulators, fostering constructive dialogue on sustainability issues.

The integration of ESG practices has a profound and positive impact on relationships with various stakeholders for both Coca-Cola Hellenic and Atlantic Group. Through their commitment to sustainability and responsible business practices, these companies have fostered trust, driven value creation, and reinforced their dedication to building resilient and sustainable relationships with stakeholders.

In the article titled "The wages of social responsibility — where are they? A critical review of ESG investing," authored by Halbritter and Dorfleitner in 2015, it is argued that many investors perceive social concerns as secondary considerations, with the primary objective remaining the maximization of returns. Both companies may have increasingly integrated ESG principles into their business strategies over the five-year period. This shift would likely have positively impacted stakeholder trust, as investors, employees, customers, suppliers, and regulators place greater importance on sustainability and responsible business practices. Stakeholders expect greater transparency and communication from companies regarding their ESG efforts and performance. Both Coca-Cola Hellenic and Atlantic Group may have improved their communication channels, providing more comprehensive sustainability reports, engaging with stakeholders through various platforms, and disclosing relevant ESG information. Companies that actively engage with local communities and support social initiatives tend to foster stronger stakeholder trust. Coca-Cola Hellenic and Atlantic Group may have increased their community engagement efforts over the five-year period, contributing to positive shifts in stakeholder perceptions. Any significant crises or controversies faced by either company during the five-year period could have influenced stakeholder trust and engagement. Effective crisis management strategies, transparent communication, and remedial actions can help mitigate negative impacts on stakeholder relationships. Adherence to ESG-related regulations and standards is critical for maintaining stakeholder trust, particularly with regulators. Both companies may have demonstrated a commitment to compliance and proactive measures to address regulatory requirements, thereby enhancing stakeholder confidence. Companies that innovate and adapt to emerging ESG trends and stakeholder expectations are likely to earn trust and engagement. Coca-Cola Hellenic and Atlantic Group may have introduced innovative sustainability initiatives, product offerings, or operational practices over the five-year period, positively impacting stakeholder relationships. Increasing investor activism around ESG issues can also drive shifts in stakeholder trust and engagement. Stakeholders may respond positively to companies that demonstrate responsiveness to investor concerns and take proactive steps to address ESG-related risks and opportunities. Gossling and Clauss (2018) conduct an empirical analysis of the relationship between Environmental, Social, and Governance (ESG) performance and sovereign bond spreads in OECD countries, shedding light on the financial implications of ESG factors at the national level. Their findings contribute to understanding how ESG considerations influence investor perceptions and sovereign borrowing costs, highlighting the relevance of sustainability metrics in assessing country risk. Overall, shifts in stakeholder trust and engagement for Coca-Cola Hellenic and Atlantic Group over a five-year period are likely influenced by their ESG integration efforts, transparency and communication practices, community engagement initiatives, crisis management strategies, regulatory compliance efforts, innovation and adaptation measures, and responses to investor activism.

8. PROSPECTIVE TRAJECTORY OF ESG PRACTICES FOR COCA-COLA HELLENIC AND ATLANTIC GROUP: NAVIGATING INDUSTRY TRENDS, REGULATORY DYNAMICS, AND STAKEHOLDER EVOLUTION

Taking into account industry trends, regulatory shifts, and evolving stakeholder demands, the future trajectory of ESG (Environmental, Social, and Governance) practices for Coca-Cola Hellenic and Atlantic Group may encompass the following aspects: continual emphasis on sustainability within industry trends, adaptation to strengthened ESG regulations, focus on social impact, increased emphasis on transparency and disclosure, heightened focus on engagement and collaboration with stakeholders, and integration of circular economy initiatives aimed at minimizing waste and maximizing resource efficiency throughout the value chain.

Scholtens and Kang (2013) underscore the profound influence of corporate social responsibility on earnings quality, illuminating the intricate linkages between ESG initiatives and financial performance. Their study delves into the multifaceted ways in which companies' commitments to environmental, social, and governance standards can shape the integrity and reliability of their earnings. Both Coca-Cola Hellenic and Atlantic Group are anticipated to maintain a robust commitment to sustainability, with a particular focus on reducing carbon emissions, advancing water stewardship, and mitigating environmental footprints across their operational spectra. Circular Economy Initiatives are expected to garner increased attention, encompassing strategies such as recycling, reuse, and waste reduction, aimed at curbing resource consumption and fostering a more sustainable operational framework. Embracing innovation and technology will be pivotal in augmenting ESG performance, entailing investments in renewable energy solutions, sustainable packaging, and supply chain traceability technologies. Regulatory landscapes pertinent to ESG practices are poised to evolve, with governmental bodies imposing more stringent requirements on corporations to divulge their environmental and social impacts. Anticipated regulatory shifts may revolve around carbon pricing mechanisms and emissions standards, motivating companies to intensify efforts towards emissions reduction and the adoption of low-carbon alternatives. Stakeholder expectations are slated to evolve, with investors, employees, customers, and regulators advocating for enhanced transparency and disclosure concerning companies' ESG endeavours, initiatives, and impacts. A greater emphasis is foreseen on social impact endeavours, including diversity and inclusion initiatives, employee welfare programs, and community engagement efforts, as stakeholders increasingly value companies contributing positively to societal welfare. Stakeholder engagement and collaboration are anticipated to be paramount, necessitating active dialogue with investors, partnerships with non-governmental organizations (NGOs) and community entities, and consultation with employees and suppliers on ESG matters. Furthermore, Brown and Fraser (2006) provide insights into various approaches to corporate sustainability adopted by Canadian firms, offering valuable perspectives on how companies incorporate environmental, social, and governance factors into their organizational strategies. Their study contributes to the understanding of the diverse strategies and practices employed by companies to address sustainability challenges. In response to these evolving trends and expectations, Coca-Cola Hellenic and Atlantic Group are poised to further embed ESG considerations into their strategic frameworks, operational paradigms, and stakeholder engagement modalities. This may encompass the establishment of ambitious sustainability targets, investment in ESG-driven initiatives and technologies, fortification of governance frameworks, and enhancement of transparency and disclosure mechanisms. By proactively addressing ESG imperatives and opportunities, both entities stand to bolster their competitive positioning, resilience, and long-term value generation, while simultaneously contributing to the advancement of a more sustainable and inclusive global landscape.

9. CONCLUSION

Prior empirical studies have identified a correlation between Environmental, Social, and Governance (ESG) ratings and financial returns. However, findings from ESG portfolio analyses have failed to demonstrate a significant return differential between firms with high and low ESG ratings. Despite statistically significant influences of various ESG variables identified through Fama and MacBeth (1973) regressions, investors have encountered challenges in capitalizing on this relationship. The magnitude and direction of this impact are found to be contingent upon factors such as the ESG rating provider, the composition of the company sample, and the specific sub-period under consideration. Consequently, it is suggested that investors should temper their expectations of abnormal returns through the implementation of difference portfolios based on ESG ratings. (Gerhard Halbritter, Gregor Dorfleitner, 2015).

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IGNORING DIVERSITY IN CRISIS COMMUNICATION ON SOCIAL NETWORKS: THE CASE STUDY OF ORLJAVA D.O.O.

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ABSTRACT

Introduction: In the contemporary era of technological digitalisation, social networks have become integral to media communication, rendering their absence inconceivable. Consequently, their position assumes critical significance in achieving a company's success. Social networks facilitate the expeditious and effortless dissemination of messages to many persons and entities. In contemporary society, the advent of social networks has significantly expedited and simplified the process of communication. Diversity in crisis communication refers to including various perspectives, voices, and cultural backgrounds in the crisis communication process. The methodology employed in this study involves a systematic approach to data collection and analysis. This study employs a case study methodology to elucidate the crisis and communication carelessness exhibited by Orljava d.o.o., a famous textile factory in Croatia. This study examines the factors contributing to the financial decline of the corporation and explores crisis communication strategies with a particular focus on utilising social networks. The analysis offers valuable insights into the intricate processes that contributed to the bankruptcy of Orljava d.o.o., highlighting the importance of implementing robust crisis communication techniques within organisational environments. Orljava's bankruptcy highlights notable crisis communication and planning challenges among critical stakeholders, including government and top management. The Government of the Republic of Croatia's lack of responsiveness and withholding of crucial information further intensified employee tension. The absence of effective communication from top management resulted in employee dissatisfaction, while the government's reckless actions further exacerbated the problem. The company needed more engagement on social media sites, while the government's limited involvement could have helped to resolve the situation efficiently. This case study's findings highlight the significance of public awareness regarding corporate crises and the key stakeholders' involvement. The validity of crisis management's beliefs in formulating a crisis communication strategy and swiftly disseminating information to the public has been confirmed. This is particularly relevant when the situation diverges from the intended course and the company's future is still being determined.

Keywords: *social networks, diversity, crisis communication*

1. INTRODUCTION

A crisis can hit any organisation. During the crisis, the organisation informs all stakeholders and the public about their situation. Therefore, the organisation needs to establish a crisis management team and develop crisis communication strategies to inform all stakeholders and the public about the crisis. This needs to be done daily.

They must provide accurate and reliable information, even if sometimes the organisation does not benefit from them. Communication needs to be adopted for different stakeholders. Diversity in crisis communication refers to including various perspectives, voices, and cultural backgrounds in the communication process during a crisis. It involves recognising and addressing the needs of diverse stakeholders, including employees, customers, and the community, and ensuring that communication strategies are inclusive and sensitive to different cultural, linguistic, and social backgrounds. This can involve using diverse communication channels, languages, and messaging to effectively reach and engage with diverse audiences during a crisis. Additionally, diversity in crisis communication also encompasses the representation and inclusion of diverse voices and perspectives in decision-making and response efforts, reflecting the varied experiences and needs of the affected individuals and communities. By utilising social media, individuals of all ages can create a platform that attracts a greater audience than in any other environment. As a result, people have a constant need to communicate. Social media has empowered millions to express their opinions and disseminate information they deem significant and pertinent. This is supported by the fact that Facebook has over 2,91 billion active users, Twitter has over 396,5 million active users, and Instagram has over 2 billion active users. Therefore, the opportunity to shape the narrative during a crisis has been drastically diminished in the era of social media. Thus, a video snippet, tweet, or meme can rapidly escalate out of control within minutes. In such situations, the significance of an instantaneous reaction cannot be emphasised enough. In addition to helping to influence the narrative, being the first to address an issue or crisis also demonstrates accountability. An expeditious reply indicates that the organisation is cognizant, apprehensive, and forward-thinking. The dissemination of deceptive narratives, misinformation, and speculation can be substantially diminished. In contrast, delayed responses may give rise to the impression of indifference, carelessness, or even culpability. This can assist organisations in gaining insight from the crisis and enhancing their future crisis communication efforts. This paper seeks to analyse the crisis communication of company Orljava d.o.o. and its influence on the crisis.

2. LITERATURE REVIEW

2.1. The crisis and the crisis event

Many authors agree that no single definition of crisis exists (Bookchin, 202;. Brecher and Wilkenfeld, 2022). However, there is an agreement that a crisis is an undesirable event that can cause harm and even eradicate a particular organisation. No company can be sure that it will not experience a crisis because there are many causes and sources. Tomić and Milas (2007) perceive the crisis as a deviation or obstacle in business that tends to attract public or media attention while stopping the organisation's functioning. Kuipers and Welsh (2017) divide crises into personal and social crises. On an individual level, crises represent a specific negative change in a person's life, in which the crisis can lead to poor mental states and dysfunction at work. The crisis brings inevitable consequences and usually affects the person in such a way that the affected person experiences stress, feelings of tension and pressure, psychological stress, incompetence in terms of time and space, etc. According to Rodríguez et al. (2007), a crisis event is a sudden and highly unexpected event that can be distressing or distressing to a person, organisation or society. A crisis event can refer to the loss of a person, some things or values that are relevant to a person or groups or society. Equally, people often feel unable to deal with a crisis if they adopt common coping mechanisms such as social interaction or planning. Every company can experience a crisis or a crisis event for multiple reasons. These can be internal or external causes; the company may / cannot influence the crisis. However, it should clearly describe its mission, vision and business goals. According to Borda and Mackey-Kallis (2003), a company's primary objectives are those whose failure to attain them can lead to its collapse.

2.2. Causes and Crises Types

Although the causes of the crisis vary, modern literature generally divides them into external and internal. External causes, as the word indicates, arise outside the organisation or in its external environment, and it is considered that the organisation does not substantially influence these causes or can easily predict them. Bookchin (2022) emphasises that a crisis is a significant incident affecting human safety, the environment, products or the organisation's reputation. Yordanova (2020 named the most common external causes as natural disasters and catastrophes, social and political changes, financial recessions and crises, fluctuations in the security environment, or fluctuations in the market. In contrast to external causes of the crisis, internal causes arise within the organisation and are usually not immediately apparent. Psychogios et al. (2020) count poor organisation, working conditions, interpersonal relationships, lack of communication, immorality and unprofessional management, corruption, rivalry, unrealistic union goals, and a lack of corporate culture as crisis courses. Accompanying these causes are inefficient financial management, poor customer, employee and management behaviour, and high operating costs from competitors. Campos et al. (2006) divide the crisis into two types. The first types of crises affect the environment from which they originate: crises of a physical nature, crises of public opinion, crises caused by administrative errors or crises of the economic and political environment. The second type of crisis related to the timing of the warning is crises, accidents and fatalities, hidden crises, and internal factors. Types of crises are divided into unusual and perceptual crises based on their experience. Crisis managers are confronted with risky, unpredictable and complex situations daily. However, Hassani and Hassani (2016) use scenario analysis to predict certain situations and control risks more efficiently. It can be used to estimate the likelihood of specific crises. Also, many organisations develop a contingency plan that they test in different situations and select one person or team responsible for contingency, analysis, planning, and coordination.

3. THE CRISIS COMMUNICATION

Crisis communications can be described as a set of technologies, systems and protocols that enable an organisation to communicate effectively during a crisis that could jeopardise its business or reputation. Organisations must be prepared to respond to external and internal crises, such as extreme weather conditions, crime, cyber-attacks, product criticism, malversations, reputation crises, etc. According to Coombs (2018), crisis communication is exchanging information before, during, and after a crisis. The process involves individuals, groups and organisations and is essential for overcoming the crisis in public and private companies and non-profit organisations. Mansor and Kader Ali (2017) explain the relationship between crisis communication and crisis management, emphasising how crisis management can be correlated with crisis communication to mitigate and eliminate the crisis and bring a more positive reputation to the organisation. Dunn and Kirsner (2002) emphasise the importance of communication during an emergency to better guide public response and that the effectiveness of this communication depends on previous actions. Therefore, every organisation should have a plan for communicating with its employees and other stakeholders, such as customers, suppliers and the media. Many companies face numerous problems, changes, and crises. However, they must plan and implement crisis communication to deal with the challenges more efficiently. The study conducted by Johansen et al. (2012) demonstrates that almost all companies have a crisis or contingency plan, and most of these plans include an internal component that addresses management and stakeholder communication during a crisis. However, many companies fail to communicate well during crises (Liff and Wahlström, 2018). Organisations fail to identify risks that can harm them, know the importance of crisis communication, and invest heavily in relevant processes.

This can be accomplished through preparation and timely response to a crisis, allowing organisations to protect their customers, customers, employees and property and ensure business continuity. In addition, it offers its employees fast and efficient communication and the exchange of helpful information. Jugo et al. (2020) explain that the emergence of social networks and newer web communication platforms have further accelerated high-speed communication during the crisis and presented organisations with new challenges and problems. Regardless of their size, all organisations require crisis communication and engage in numerous activities as they face various threats. Due to the nature of online and newspaper media and social networks, it is more important than ever that an organisation can answer any questions and ambiguities quickly and reliably once a crisis hits. Crisis communication involves various members such as employees, crisis management teams, Public Relations teams, Information Technology Teams, department heads, insurance companies, police, government officials, etc. Although the approach to crisis communication is different for every organisation, some practices have proven to be the most effective. Information should be provided promptly: it provides employees and other stakeholders with access to the latest information. Information should be available everywhere: The most effective way of communication should be through tools available on mobile devices. The in-house tools should be avoided as employees may not be close to workplaces. It is more efficient to communicate with mobile technology, which is available to the user anywhere and anytime. Messages should be relevant to the individual: employees shouldn't receive every message in an emergency. Response time is slowed when team members are bombarded with irrelevant information. Ideally, the system should ensure that information gets to the departments or people who need it most. Due to the employees' massive use of smartphones and modern media reporting channels, all news and information is available anytime. The latter simplifies emergency response, helps protect people, safeguards physical and digital assets, and minimises lost productivity.

3.1. The role of social networks in crisis communication

Grbavac and Grbavac (2014) emphasise that man is a social being who needs to interact with other people, communicate and share information from their everyday life, which leads to social networks becoming known as a communication phenomenon recognised worldwide. Social media users adopt them to meet new people, make new friends, keep in touch with people they have met and share information, news, pictures and other media content. The main feature of all social networks is the common interest of the people and the communication means and methods used to communicate with each other. According to CivicPlus, as of July 2016, there were 1.71 billion active social network users worldwide, while 823 million use social networks exclusively on smartphones or mobile devices such as tablets. According to the calculation, one million new active social network users appear every day, one in 12 seconds. Comparing these numbers to the 2020 statistic, when there were 2.9 billion users, it's undeniable how powerful social networks are and how important they are. With the development of Internet technologies, social networks have undergone a significant turnaround and have become the most widely represented source of information. Social networks allow users to get news quickly, no matter where they are. Fast communication and information exchange via social networks are essential in marketing and business life in general, Grbavac J. and Grbavac V. When communicating with an organisation via social media, the organisation should have a person or team dedicated exclusively to dealing with social media during the crisis communication via social networks is necessary because the public is quickly informed of crises, emphasising that they should only place accurate and verified information. As its own "ethical compass", every organisation should have ethics, quality, responsibility, integrity, and professionalism. Public relations professionals often develop an official response during a crisis and represent the organisation.

This can include writing speeches for the executive team, arranging press conferences, preparing media reactions, calming the internal and external environment and advising company leaders. Today's PR professionals face many crises and must develop communication and leadership skills as they are expected to provide sound advice and expert opinions. The impact of mass media and social networks on the individual, organisation and society is inevitable. Understanding and accepting this impact is critical to effective crisis management in the future.

3.1.1. The role of social media reporting in the time of crisis

In a crisis, the media and the public aim to receive reliable and up-to-date information as quickly as possible. Social media coverage is a great way to draw public attention to the issue and deliver important safety messages on time (Krakovsky, 2010). Effective communication with the external environment is critical for businesses during a crisis, making social media crisis management essential. crisis communication managed through social media is vital for companies (Civelek et al. 2016). Griffin (2018) lists three advantages that social networks offer during a crisis:

1) Crisis prevention: Social networks should be integrated into crisis communication, increase the number of followers and reach the broadest possible range of news,
2) Crisis intervention: News should be shared and constantly updated via social networks, rumours should be confirmed or denied, and comments and concerns should be responded to, if any broadest
3) Postvention: Information about the outcome of the crisis should be shared on social networks and confirmed when it ends.

Social networks are an indispensable communication tool for many companies and are essential in informing users in times of crisis. However, presenting entirely accurate content and information is sometimes difficult due to crisis events. Dania & Griffin (2021), therefore, give some tips for using social networks more successfully in crisis communication: be active and present on social networks, including social networks in the safety plan, build a team for crisis communication on social networks, be creative when publishing information and link your social media profile to the website.

4. DATA & METHODOLOGY

This section of the paper analyses the crisis of Orljava d.o.o., one of the most famous Croatian textile factories. In 2021, the company faced an economic crisis that eventually led to bankruptcy. The study examines what led the company into the situation, how it communicated during the crisis, and whether it used social networks to present information and communicate with its stakeholders. The case study methodology thoroughly reviews archival records, financial statements, pertinent literature, and semi-structured interviews with key stakeholders.

4.1. Orljava d.o.o.

Orljava d.o.o. is a company from Požega (Croatia) that produces high-quality shirts for men. The company's production facilities are located in Požega and have modern equipment needed for textile production. It is one of the well-known Croatian textile factories, operating for 75 years and one of over a hundred state-owned companies. The company started producing for export in the 1960s and reached its strategic target of 90% of export production in the 1990s. Demand for the company's products has been growing since 1991. The company is recognised in the domestic market for its high-quality products that compete with foreign products in price and quality.

The company also holds the Croatian Chamber's quality mark for Croatian quality products. The quality mark is a recognition of the product's quality and a guarantee for the consumer that it is a product that meets the highest quality level.

4.2. Crisis and its Consequences

After 75 years of operation, the company fell into 30 million kunas debts, to which the state has not responded for years. In addition, the company has shown signs of unprofitable business for years. According to the 2019 report, the loss was over 10 million kuna. Business deteriorated, and the state failed to fulfil its promise to find a strategic partner. When asked whether Orljavas' problems could have been solved earlier, Minister of Spatial Planning, Construction and State Property Mr Darko Horvat said „The debt was not recently incurred. It was incurred after a pre-bankruptcy settlement adopted from 2013 to 2019. Those 30 million kunas, both short-term and long-term liabilities, were generated five years ago. So could it have been repaired two, three or five months ago - probably yes," Horvat said. One of the reasons for this situation in which the company found itself could be its separation from the system of the Penitentiary and Prison in Požega in 2002, which lost agriculture, livestock and metal plant in the division of property and inherited many debts. On July 2 of the same year, a hearing on the bankruptcy petition of the director of the Orljava company, Luka Balenović, was scheduled. They stated that the bankruptcy petition was correctly filed due to the company's over-indebtedness. The company has been operating at a loss for years. However, it is unclear to the workers how this could happen. After all, they exported up to 7,000 shirts a week. Internal sources that could have influenced the company were identified as the causes of the crisis: poor financial management, management incompetence, poor working conditions and poor communication. An external cause influenced the whole situation – the Covid pandemic. At the beginning of 2020, the company's long-term partner - the German company Olymp - began to reduce orders due to the pandemic, which decreased the Orljava company's business volume. Olympus was also the leading layer of the company's products, and a small part was delivered to Slovenia and the domestic market. A few years ago, Orljava d.o.o produced two thousand weekly shirts for Olymp. However, the 180 workers paid the minimum wage in recent months have been left out of work as orders are cut. Then the company collapses. Although the company has not been able to influence the COVID crisis, it should be noted that this specific crisis is not responsible for its accumulated debt over the years. The effects of the crisis were felt primarily among the company's employees. Aside from weekend work with unpaid overtime, wage delays, precarious growth, and administrative and state neglect, trade unionist Mrs Jasna Beli, the company's employees, have been working for the minimum wage until recently. They are workers in their fifties who, with their 30 years of service, have found themselves in a situation where they can no longer find a job anywhere. The company's bankruptcy has cornered them, and the state, as the owner, has not taken care of them. As a result, all workers will go to the labour market.

4.3. Crisis communication

One of the main problems in this crisis is poor crisis communication (internal and external) and crisis planning by the leading actors - the state and company leadership. Namely, the Government of the Republic of Croatia turned a deaf ear to the whole case, decided not to reveal any information, and took a neutral position: "The State has turned a deaf ear. They do not want to help us"- the employees said. "The situation is difficult for us. We would all like to stay and work." said union commissioner Ms Mirela Boni. Most of the complaints relate to irresponsible behaviour and the government's lack of response to the whole situation. „There is no money for salary payments“, said Mr Mario Iveković, New Union representative. From the beginning, employees did not receive any information from the top management.

Instead, they find all the data from the media and the union. "It is a big mistake if an employee finds out crucial information from his company from the newspaper." Ignorance and absence of information caused panic and tension among the employees. "We want management to tell us what they intend to do soon. Then we will decide if we will support them. We have heard that bankruptcy is being prepared, so the transition - it is OK if it keeps the workers at their jobs, their statuses and salaries, "- said Mr Mario Iveković, president of the New Trade Union. He also emphasised workers' lack of knowledge in crisis planning of the company's management. However, those responsible did not communicate too much with the public. Although the government uses social networks daily, the Republic of Croatia and Orljava d.o.o. didn't use them to inform the public. Orljava d.o.o. has its official web page and its official Facebook page. In addition, the Government of the Republic of Croatia used Facebook, Twitter, YouTube, Instagram and Flickr as official means of communication. However, in the case of the Orljava company, there was no communication with the public. Not at least one publication of information was published. They have more than 160,000 followers on their Facebook page and 180,000 followers on Twitter. Only one post was published on Twitter on August 13 (Figure 1). They shared Minister Horvats' statement but did not present a clear position or press release. No were no news or any information relevant to the crisis on their Facebook page or Orljava d.o.o website.

Figure 1: Governments Tweet on Twitter
(Source: https://twitter.com/search?q=orljava&src=typed_query)

Crisis communication must be prepared and well-mannered. Crisis management implies strategic thinking in crises and getting a grip on the company's reputational threats. For successful crisis management, it is necessary to prepare a crisis communication team, a crisis communication centre and a person to communicate with the media. Unfortunately, neither the State nor the management of Orljava d.o.o. took any of the above actions. Employees and the public needed to be made aware of the essence of the case. Those responsible shared the information on a dropper. According to Minister Horvat, from the management of Orljava d.o.o. They have yet to get a plan according to which they would see a new investment cycle to bring the company into a technological connection with its largest customer, the German company Olympus. Given that the management of Orljava still needs to develop a corporate development strategy and recovery plan, one must be sure they have developed crisis communication strategies. One of the most common mistakes in internal communication is not providing information to the company's employees.

As the most crucial resource of the organisation, employees should not first find out about the crisis via the media. Still, they should be promptly informed about everything happening. Employees should be involved in the new situation and, with their suggestions and ideas, help to eliminate or mitigate the consequences of the crisis. They should also be familiar with the Crisis Communications Plan to communicate more easily with the media and provide reliable information when needed. In the case that employees need to be informed about the crisis, this can lead to panic behaviour and the spread of rumours that harm the crisis resolution, as shown by the example of this company when employees decided to protest against a possible bankruptcy. They asked the government to invite union representatives to consider their future, but the government wanted to be more interested in speaking to them or communicating with Olympus. The termination of cooperation between Olympus and Orljava was discussed in May 2021, when information emerged that Olympus might end collaboration with this company altogether because the Germans wanted more communication with the State, the company owner. Terminating cooperation with Olympus, for which the state was responsible, meant the definitive end of Orljavas' business.

5. THE RESULTS

The Government of the Republic of Croatia and the company Orljava d.o.o. needed better financial management, and management required a developed crisis communication plan or external and internal communication, a change management component for specific organisations. Neither side had a crisis communication team that could competently, quickly and effectively respond to the challenges of the crisis. The company needed a spokesperson or a person who, in coordination with other team members and the public relations officer, would design critical messages to be presented to employees, the media and the public. The crisis team should constantly contact the press, thus ensuring the timeliness and consistency of information to the general public. The Government of the Republic of Croatia has carefully chosen the words when addressing the public. They presented only a little information. However, with her post on Twitter, relying on Minister Horvat's statement about the existence of companies interested in taking over and continuing the company's production, she supposedly wanted to alleviate the situation. According to the portals, one of the interested companies was Hemco from Đakovo, whose interest lasted for a short time since Orljava d.o.o. carries a debt of H.R.K. 30 million. Likewise, as the company's owner and the company itself, the State did not take the opportunity to inform the public about the situation. The fastest and easiest way to do the latter was through social networks, where the Government of the Republic of Croatia has more than 300,000 followers. In this way, they could show their sincerity, concern and involvement.

5.1. Implications and recommendations

The study's conclusions highlight how crucial it is to have crisis communication, especially in contemporary social media. Social networks are essential tools for communication in today's digital world, and companies need to understand how important they are to their success. The results emphasise how important it is for companies to plan for crisis communication to ensure that information is shared quickly and openly across various media. As the Orljava d.o.o. case demonstrated, failing to do so might have serious repercussions, such as a financial fall and discontent among stakeholders. As a result, companies need to prioritise crisis communication planning, using social media as an effective means of reaching a wide range of audiences in a crisis. Several suggestions can be made to address the issues raised and enhance the efficacy of crisis communication in light of the research findings. First, companies must fund comprehensive crisis communication education and readiness initiatives for critical stakeholders, such as government representatives and management.

The need for prompt and open communication and using social media platforms for crisis management should be emphasised. Companies should also have clear procedures for communicating information and responding to crises, ensuring that everyone who needs to know knows their duties and obligations. Furthermore, since it enables them to resolve issues and promptly give the public accurate information, proactive participation on social media platforms is crucial for businesses going through a crisis. In the instance of Orljava d.o.o., greater involvement on social media would have reduced employee discontent and promoted more open communication with stakeholders. To effectively address problems, government agencies should also be aware of their role in crisis communication and actively work with businesses. This could entail giving assistance and direction in times of need and promptly informing those impacted of important information. The study highlights how crucial it is to have professional and honest crisis communication to lessen the effects of company disasters. Organisations can improve their crisis readiness and reduce the negative impact of crises on their operations and reputation by preparing a crisis plan. Furthermore, more study and research in this field are essential to create best practices and ensure that companies are sufficiently prepared to handle crises in the digital age.

6. CONCLUSION

Social networks today are common means of communication and significantly impact society. No organisation has been spared the crisis. A crisis can hit any organisation. The crisis period is a specific time for every company when its employees and all those interested in its business demand and deserve accurate and timely information. Nowadays, it has been shown that the fastest way to reach them is through social networks, with typically more than a billion users worldwide. Lack of information creates the so-called "information vacuum" that can quickly be filled with speculation, rumours, misinformation, or uncontrolled public attacks that permanently damage a crisis-stricken organisation's reputation and business. A successfully defined crisis communication strategy can help an organisation reduce or even eliminate damage to its reputation. Some organisations have well-prepared contingency plans and manage to turn the crisis into an opportunity to strengthen themselves in public further and build a positive image. In addition, social networks have proven to be an effective tool and channel of crisis communication. Responding quickly and sharing accurate and reliable information can help stem the spread of harmful rumours, position the company as a reliable source of information, and enhance its image as a credible, committed and empathetic company. In addition, the management should use strategic thinking to anticipate the organisation's opportunities and threats. An organisation must be transparent and open to the public and admit its mistakes when they are guilty because only such an approach can reduce the intensity of the crisis, restore the damaged reputation, and restore the public's lost trust.

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BEYOND THE BALANCE SHEET: UNCOVERING ESG CONCEPTS IN CONSTRUCTION COMPANIES THROUGH ANALYSIS AND EVALUATION OF NON-FINANCIAL REPORTS

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ABSTRACT

The construction industry is well-known as a traditional sector that is slow to adopt new trends, particularly when it comes to managing construction companies. This was primarily caused by the industry's characteristics and market conditions. Large construction companies play a significant role in developing and implementing new and modern management practices. Since implementing a new environmental, social, and governance (ESG) concept has become a hot topic in recent years, it is appropriate to look into the role of construction companies in achieving ESG goals. The European Corporate Sustainability Reporting Directive (CSRD) has resulted in numerous changes in business practices, including those of construction companies. Given the construction sector's significant influence in climate change and environmental protection, previous practice has shown that construction companies contribute the most to the environmental goals. However, the new European Sustainability Reporting Standards (ESRS) identify other important topics that construction companies may need to consider, such as their own workforce or management transparency. This paper investigates how Croatian construction companies report on ESG practices, how familiar they are with the new directive and standards, and what the biggest challenges and opportunities for them are. The findings of this paper will provide guidance for future steps to improve construction sector development in terms of non-financial reporting and readiness to implement ESG strategies.

Keywords: *ESG concept, construction industry, construction companies, non-financial reporting, ESG strategies*

1. INTRODUCTION

In the second half of the twentieth century, companies began to pay increasing attention to how they achieve business results rather than solely focusing on profit. Elkington (1997) created the term "Triple Bottom Line" (TBL), which refers to sustainability. Such a business model relies on a business strategy that begins with companies advocating for the social and environmental aspects of their operations in the same way that they advocate for the financial ones. Companies began to publish non-financial reports, also known as sustainability reports, to demonstrate their social and environmental contributions. since they have an important role in creating the market, the economy, and the society around them and have become key subjects in achieving a more sustainable future. To encourage companies and other institutions to transition to sustainable business, the European Union (EU) has developed a long-term strategy that includes sustainable, inclusive, innovative, and smart business models to address all of the issues that businesses and other organisations face today (Lovrenčić Butković & Omazić, 2022). After nearly 200 countries signed the Paris Agreement in 2015, to limit greenhouse gas emissions in order to keep global warming below 2 degrees Celsius above pre-industrial levels, as well as to maintain a global temperature rise of 1.5 degrees Celsius, the EU published the fundamental document in 2020 - The European Green Deal (EC, 2020). The European Green Deal states that the EU aims to become the first carbon-neutral continent by 2050. To achieve this goal, each member state agreed to reduce emissions by at least 55% from 1990 levels. In addition to numerous initiatives announced by the EU with the aim of achieving sustainable development, there are documents that directly concern the construction industry (CI) , such as: Circular

Economy Action Plan (EC, 2020), EU Taxonomy (EU 2020/852), Renovation Wave Strategy (EC, 2020), Fit for 55 package (EP, 2021), Biodiversity Strategy for 2030 (EC, 2020) ili Sustainable Products Initiative (EC, 2021). It is undeniable that the CI plays a critical role in achieving the goals set by the transition to a sustainable economy. In 2022, the CI contributed 10.1% of the total value of the gross social product, with over 3 million companies and 12 million employees operating on European Union territory (FIEC, 2023). On the other hand, the CI is distinguished by its extensive use of various materials and natural resources and it is estimated that material extraction, construction product manufacturing, and building construction and renovation account for 5-12% of total national greenhouse gas emissions. The construction sector in the EU is responsible for approximately 40% of CO_2 emissions and generates more than 35% of total waste. This is why construction companies and all of their stakeholders will make significant contributions to achieving long-term goals through the adoption and implementation of European directives, as well as the publication of non-financial reports. To prevent non-financial reporting from becoming and remaining just a tool for »greenwashing«, sustainability reports needed to be standardised. In current practice, Environmental, Social and Governance factors (ESG) has become the most widely used measurement of sustainability standards for holding firms accountable (Howard-Grenville, 2021). The new Corporate Sustainability Reporting Directive (CSRD) was adopted in November 2022, and it is an EU regulation that requires all large companies to publish information on the environmental and social impacts of their activities, as well as any sustainability risks to which they may be exposed (EC, 2022). This regulation aims to assist investors, consumers, policymakers, and other stakeholders in assessing the ESG impacts of business, as well as the effects of climate risks. In July 2023, the EU adopted the European Sustainability Reporting Standards (ESRS) to establish ESG information standards as well as unify and standardise non-financial reports, marking another step towards the acceptance of the ESG concept in company operations (EC, 2023). Given the construction sector's significant influence in climate change and environmental protection, previous practice has shown that construction companies contribute the most to the environmental goals. However, the new ESRS identify other important topics that construction companies may need to consider, such as their own workforce or management transparency. However, it is well known that construction companies are quite inflexible and slow to adapt to new requirements, particularly those that are not directly related to the financial results. The article's primary focus is an exploration and analysis of the cumulative findings on non-financial reporting within large Croatian construction companies. It also looks into how they report on ESG practices, how well they understand the new directive and standards, and what their biggest challenges and opportunities are.

2. LITERATURE REVIEW

There are numerous reports and papers on the adoption trends in non-financial reporting, but few on the topic of construction companies. According to Siew et al., studies on non-financial reporting trends in the construction industry often have insufficient sample sizes to draw accurate conclusions. Lamprinidi and Ringland (2008), for example, identified 16 "global" construction and real estate companies, KPMG (2008), three to eight companies, and Brown et al. (2009), twelve. Construction companies have a social responsibility to integrate sustainability concepts into project planning, design, building, and management (Ershadi and Goodarzi, 2021), primarily because construction products have a direct and indirect impact on the population's standard of living and improve citizens' quality of life. The construction industry has an undeniable impact on the environment, so construction companies make the greatest contribution to the environmental aspect of ESG by implementing waste management plans, using energy-efficient equipment and practices, using sustainable materials,

implementing water conservation measures, protecting natural habitats, and offsetting carbon emissions (UGREEN, 2023). The majority of previous research has focused on the construction sector's impact on environmental goals, but its contribution to social goals is also significant, especially considering its large workforce. Sulaiman et al. (2024) recently evaluated current ESG practices disclosed in annual reports and sustainability statements among 55 construction sector companies listed on Bursa Malaysia. The results show that the social pillar has the highest percentage of ESG practice among construction companies, scoring 64% with a focus on health and safety. The environmental pillar practice continues to have the second highest score (57.45%), followed by governance (55%). Companies can consider the social impact of their construction projects by ensuring fair labour practices, engaging with local communities, creating accessible spaces, promoting diversity and inclusion, and giving back to the community (UGREEN, 2023). So far, perhaps the least attention has been paid to the governance aspect of ESG, but this may change soon, given the unique nature of construction management in organisations. Clear ethical guidelines, transparency in business practices, the implementation of effective risk management systems, and strong internal controls are all examples of how a company can demonstrate a solid approach to governance in the construction industry (UGREEN, 2023).

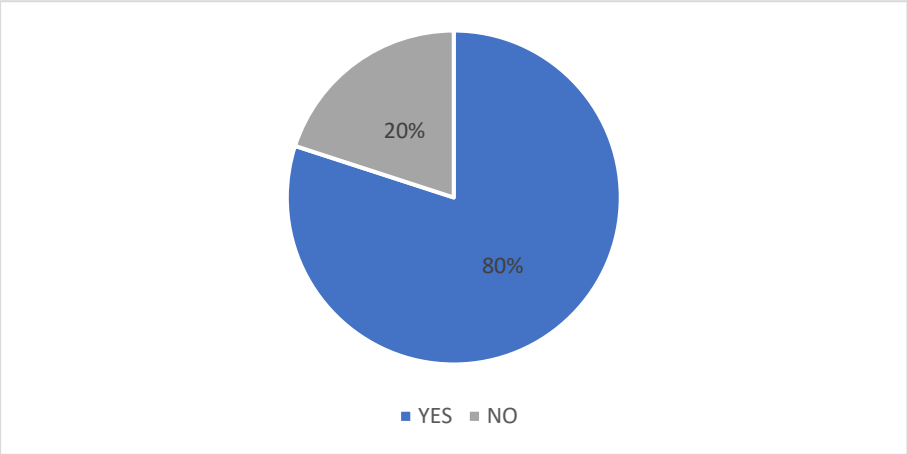
3. METHODOLOGY AND DATA

The study wanted to investigate how existing rules and guidelines for non-financial reporting affect large construction companies in Croatia in terms of ESG disclosure. The research objectives were to examine how these Croatian companies reported on climate change in 2022. It included an examination of how they managed climate-related risks, the opportunities they discovered related to climate change, how they worked to mitigate the effects of climate change, and how they adapted to them. This type of responsible business practice can assist companies in discovering new ways to create value and set long-term goals while also dealing with major global environmental and climate issues, distinguishing them from less responsible companies (Painter et al., 2019). The CSRD currently applies to large companies with more than 500 employees and registered as joint-stock companies or identified as public interest entities, but it will be expanded to include all large companies by 2026. In 2022, there were 23 large construction companies in Croatia, with only 7 employing more than 500 people (CBS, 2023). The study thoroughly examined reports from those seven companies, and a short online questionnaire was sent via email to all 23 large companies through February 2024., gathering and analyzing the data in Microsoft Excel. The aim was to show how well they understand the new directive and standards, and what their biggest challenges and opportunities are.

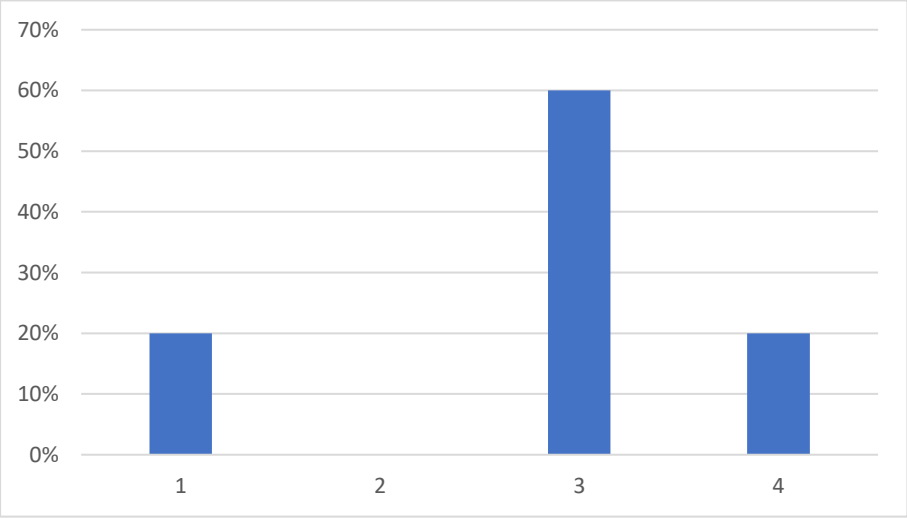
3.1. The Research Results

After the company analysis revealed that only two construction companies meet the current CSRD directive requirements for those liable for non-financial reporting, the first part of the research involved reviewing websites and available business reports. It was discovered that only one company consistently publishes a separate sustainability report, which is primarily based on GRI standards and UN sustainable development goals, whereas the other company, which is required to non-financially reporting, publishes non-financial indicators as part of its management board report. This is the clearest indication that ESG reporting is not even being considered in the business thinking or discussions of these large construction companies. In the second part of this research, short questionnaires were sent to all large companies that will be required to report non-financial information under CSRD, in which they were asked how familiar they were with the new EU regulation, which activities related to the ESG concept they use, which SDG goals they meet, and so on.

The questionnaires were distributed to the top or middle managers of 23 large construction companies, and 10 completed surveys were returned, yielding a 43,48 % response rate. According to the responses received, 80% of respondents said they are familiar with the concept of ESG (Graph 1). In the survey, respondents were asked to rate the importance of ESG principles in the company's operations on a Likert scale of 1 (unimportant) to 4 (very important). According to Graph 2, 20% of respondents believe that incorporating the ESG concept into construction company operations is not important at all, indicating a lack of awareness among top management levels in large Croatian construction companies reporting on climate, social, and governance issues.

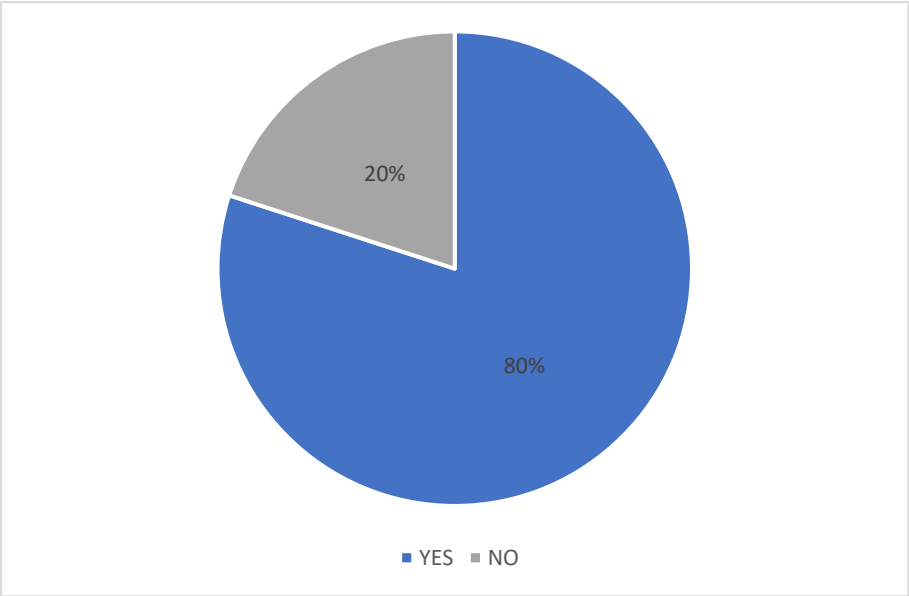


Graph 1: Understanding of ESG concepts in large Croatian construction companies (Source: Author's research)

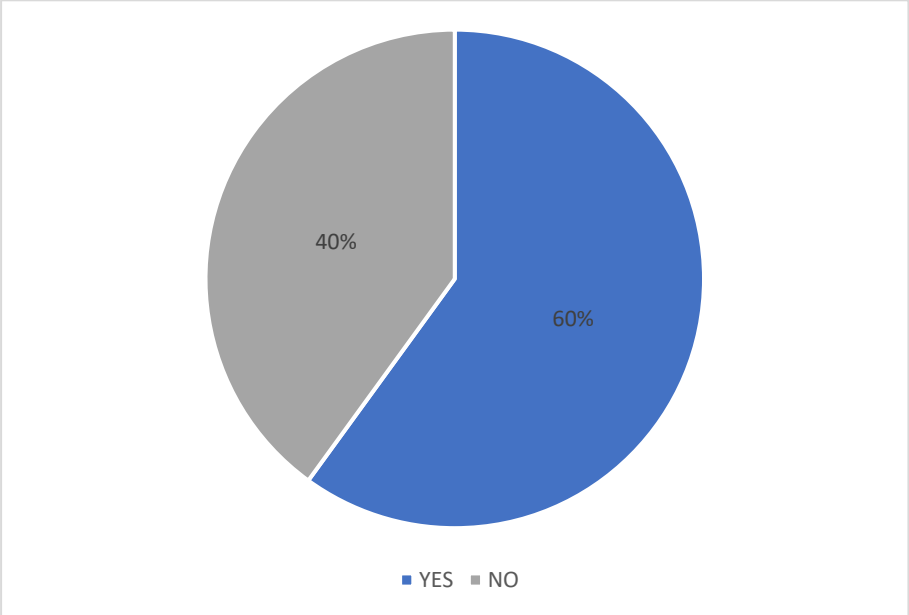


Graph 2: The importance of ESG principles (Source: Author's research)

When asked if they were aware that all large companies will be required to report on sustainability beginning in 2026, 80% responded positively (Graph 3), with 60% believing that by following to ESG principles, the company can improve its financial performance (Graph 4). This suggests that construction companies are still not prepared to not only introduce the ESG concept, but also to report on sustainability, despite the legal obligation to which they will soon be impacted by.

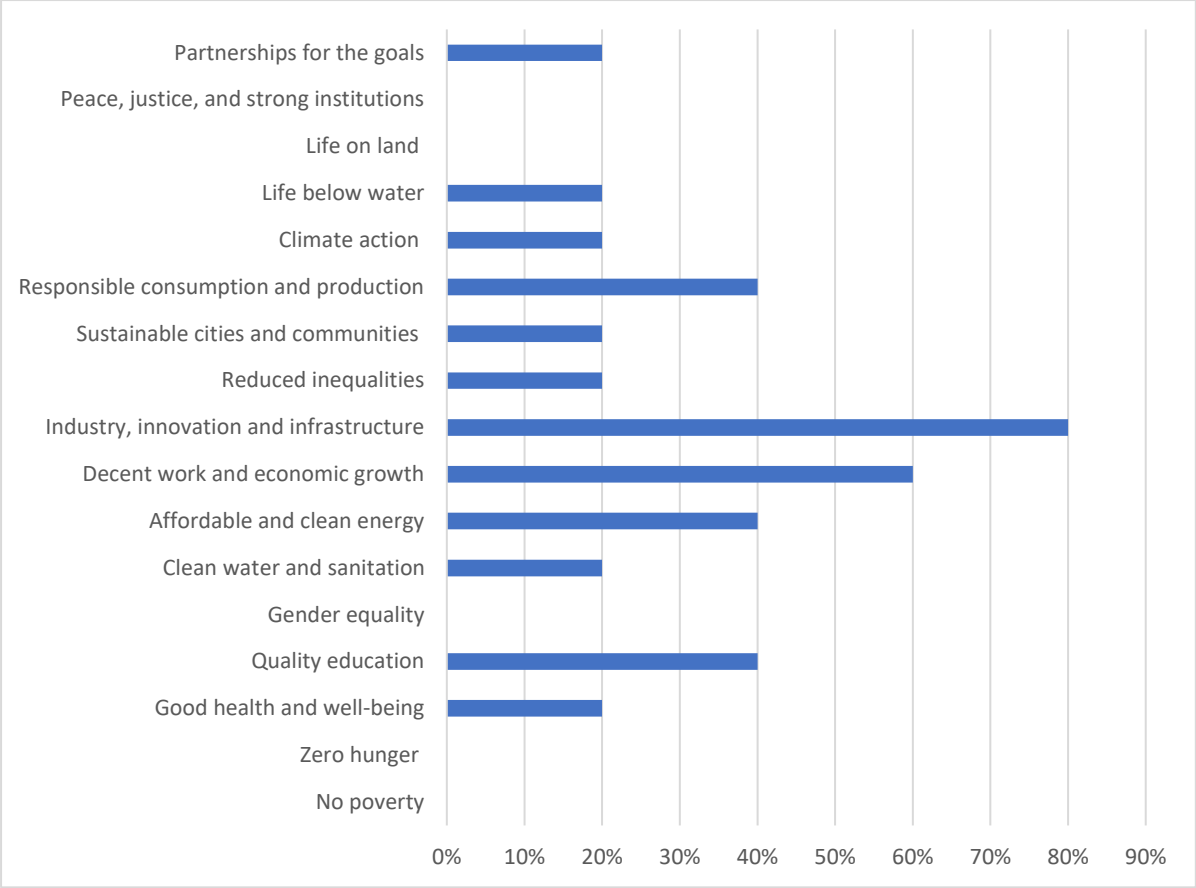


Graph 3: Large Croatian construction companies' awareness of reporting on sustainability beginning in 2026
(Source: Author's research)



Graph 4: Large Croatian construction companies' believe that adhering to ESG principles can improve their financial performance
(Source: Author's research)

Because the UN SDGs (UN, 2015) are widely used as sustainability reporting standards among construction companies worldwide, respondents were asked to list sustainable development goals to which their company directly contributes. Graph 5 shows that Croatian construction companies that took part in the research contribute the most to UN Sustainable Development Goal 9 – Industry, innovation and infrastructure, which was mentioned by 80% of respondents. Goal number 8 – Decent work and economic growth comes in second with 60%, while goals 4 – Quality education, 7 – Affordable and celan energy, and 12 – Responsible consumption and production are tied for third with 40% of respondents stating that their business activities help achieve them.



Graph 5: UN Sustainable Development Goals achieved by large Croatian construction companies
(Source: Author's research)

3.2. Discussion of the Research

Within the framework of the EU's ambitious goals, large Croatian construction companies face incredibly difficult business ventures. To meet those ambitious ESG goals, these companies will need to make significant business efforts, including changes to their practices and procedures. There is still a lack of awareness among top management levels in large Croatian construction companies about reporting on climate, social, and governance issues, particularly since it is still voluntary. Lack of ESG awareness and training mechanisms can lead to unfamiliarity and lack of motivation among construction industry practitioners in implementing ESG practices (Wang & Xue, 2023). So companies' disclosure of non-financial information is becoming increasingly important to various stakeholders (investors, consumers, employees, suppliers, and so on), as these groups consider a company's sustainability factors when making decisions. Long-term investment requires more than just profitability (KPMG, 2019). According to the findings of research conducted among large construction companies, they will face numerous barriers and challenges if they are required to report non-financial information. When it comes to the need and obligation of non-financial reporting, in the Republic of Croatia, where socially responsible business is still in its early stages of development, when compared to the best in the EU, there are objective signals that reporting by some business entities may become more of a legal obligation than the need for the integration of management's social responsibility into business operations (Omazić et al., 2020). Croatian construction companies are definitely no exception to this. To incorporate ESG concepts into daily business operations, construction companies will need to change their organisational structure in order to prepare and communicate all relevant information.

Another significant challenge that can be addressed here is that CSRD requires companies to conduct and publish sustainable reports to declare the extent to which all subjects in their value chain contribute to the ESG goals. For example, construction companies will be required to publish how their subcontractors contribute to meeting esg standards.

4. CONCLUSION

Non-financial reporting is becoming increasingly important as key stakeholders, including investors, banks, contractors, consumers, and employees, demand that corporate non-financial reporting be transparent, relevant, and reliable. Understanding the importance of reliable, standardised non-financial data related to social and governance issues, as well as environmental issues, in assessing a construction company's long-term viability, this transition is raising the status of sustainable reporting to a level comparable to financial reporting in the near future. It was expected that construction companies in Croatia, especialy large ones, would address climate change in their operations and report on it much more intense. However, the results of an empirical study preseneted in this paper, resulted in the following findings:

- according to the CSRD, only two construction companies in Croatia are required to report non-financial information now; however, only one of them consistently publishes a separate sustainability report;
- in 2022, there were 23 construction companies in Croatia that were classified as large companies based on the Accounting Law's criteria;
- 80% of respondents are familiar with the concept of ESG;
- 20% believe it is not important to incorporate ESG into construction company operations;
- 80% are aware that sustainability reporting will be required in 2026;
- 60% believe that following ESG principles can improve financial performance;
- construction companies that participated in the research were found to make the greatest contribution to UN Sustainable Development Goal 9 - Industry, Innovation, and Infrastructure.

These findings demonstrate that construction companies continue to lack an understanding of sustainable business practices and the ESG concept. The CSRD will require large corporations to publish reports, but what about small and medium-sized enterprises? Despite their importance in the construction value chain, many subcontractors are still exempt from this directive. They must show a more comprehensive approach to assessing and integrating ESG criteria, determining double materiality, and managing identified impacts. All of this presents significant challenges for construction companies in the coming years, primarily because financial indicators remain much more tangible and a powerful guiding star for contractors.

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BEYOND STEREOTYPES: THE CASE OF NEW IMMIGRANT ENTREPRENEURS IN CROATIA

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ABSTRACT

This paper portrays the underappreciated benefits of immigrant entrepreneurship in Croatia, emphasizing their role as creators of employment and drivers of innovation. Immigrant entrepreneurs catalyse positive 'spillover effects' for native businesses and enhance local tourism. The removal of prevalent business obstacles faced by foreign entrepreneurs is expected to bolster both local entrepreneurs and digital nomads seeking prolonged residency in Croatia. Additionally, native business owners stand to gain significantly from their foreign counterparts, acquiring strategies for resilience and resourcefulness, particularly beneficial during the ongoing phase of sustained economic and societal challenges, referred to as the 'extended new normal'. By identifying the lessons learned from the cases of new immigrant entrepreneurs in Croatia, this study contributes to a burgeoning global literature on immigrant entrepreneurship and still scarce academic coverage of immigrant entrepreneurship in Croatia.

Keywords: *entrepreneurship, drivers of innovation, immigrant entrepreneurs*

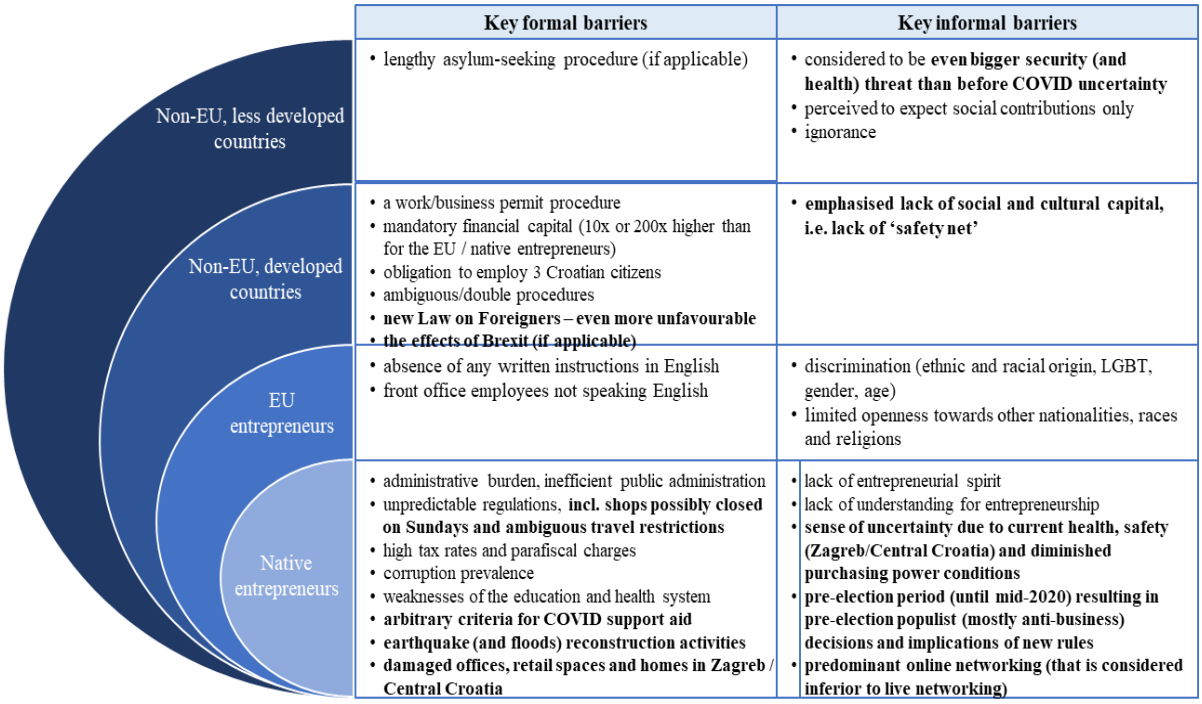
1. INTRODUCTION

The economic and social development in Croatia is heavily influenced by two major trends. The first trend is the aging and reduction of the population, while the second is the swift advancement of technology that will impact the way work is organized and carried out. These trends present both challenges and opportunities that will shape the future of employment, wages, and economic progress in Croatia. As the low and declining labour force participation of low-skilled workers in Croatia has created chronic labor shortages in sectors such as tourism or construction, Croatian businesses in these sectors are addressing this issue by recruiting foreign workers. As a result, immigration flows in Croatia had increased considerably. Moreover, in other Eastern European countries there is also an evident trend of economic returns which face positive wage premia and are more likely than non-migrants to become entrepreneurs and generate jobs for non-migrants. However, this is not the case for Croatian returnees (Umapathi et al., 2024: 10). The global landscape of migration has seen significant shifts, paralleling the rise in migrant entrepreneurship, particularly within the European Union (EU). The increasing number of migrant entrepreneurs alongside the continuous rise in global migrations has been documented in the recent years (OECD/EU, 2019). This trend underscores the evolving economic contributions and challenges of immigration, highlighting the growing importance of understanding the dynamics of immigrant entrepreneurship (Bansak et al., 2016). According to the OECD (2023), although during the last decade, the percentage of immigrants who are self-employed in the EU almost doubled, immigrant entrepreneurs have to face various obstacles while starting their own businesses, some of which are unique to them.

Precisely, they may find it challenging to create networks due to language barriers, and/or struggle with administrative barriers to obtain specific licenses due to difficulties in obtaining credential recognition etc. The main goal of this paper is to point out to the potential of immigrants in Croatia, emphasizing their role as entrepreneurs, creators of employment and drivers of innovation. The paper is structured as follows. After the introduction, section 2 provides the review of the existing literature in this area, as well as the description of existing trends in EU. Section 3 brings the analysis of the three case studies encompassing the experience of new immigrant entrepreneurs in Croatia. Finally, section 4 concludes.

2. LITERATURE REVIEW

Research in the economic implications of international migration has expanded, with a specific interest in the realm of immigrant entrepreneurship (Alesina et al., 2016; Bove & Elia, 2017). Empirical studies have consistently demonstrated that immigrants tend to be more entrepreneurial than natives, often catalysing increased entrepreneurial activity within their communities (Szarucki et al., 2016; Mieckiewicz et al., 2019). In addition, Azoulay et al (2022) demonstrated that, contrary to one of the leading fears of host population, the immigrants are rather ‘job creators’ than ‘job takers’. The increased importance of the immigrant entrepreneurship has manifested in a significant uptick in academic investigations, culminating in numerous papers and special journal issues dedicated to this subject, evidencing its relevance across academic, practitioner, and policymaker circles (Aliaga-Isla & Rialp, 2013; Zapata-Barrero & Rezaei, 2019; Dabić et al, 2020; Egorova, 2021). Despite its global and EU-wide significance, research on immigrant entrepreneurship faces notable research gaps, particularly in geographic coverage. The majority of studies focus on traditional immigrant destinations such as the United States, Canada, Australia, and Western Europe, with a relative lack of attention paid to the phenomenon in less developed economies and transitional regions like the South-eastern Europe (Verver et al., 2019). Historically, Croatia and its neighbours were considered emigration countries, but the economic and political transformations—highlighted by Croatia's accession to the EU—signal a shift toward becoming net-immigration economies. Research on immigrant entrepreneurship in Croatia can still considered to be nascent, with its initial focus on exploratory sociological and ethnographic studies into migrant social entrepreneurship, ethnic minority entrepreneurship, family businesses, and female entrepreneurship among ethnic minorities (Bužinkić, 2017; Čapo & Kelemen, 2018; Čapo, 2019; Jurković & Rajković Iveta, 2016; Kuti & Božić, 2011; Lekaj et al., 2015; Nreca & Gregov, 2018). Only in the last four years has the research on immigrant entrepreneurship gained more (socio)economic attention and focused on formal and informal barriers when doing business in Croatia, resilience during multiple exogenous shocks, importance of informal networks, media coverage and comparative perspective on labour mobility and informality (Alpeza et al, 2022; Brzozowski et al, 2022; Polese et al, 2022; Šimić Banović, 2022; Šimić Banović et al, 2022 Škokić, 2022; Vučković, 2022). The collective insights from these studies illuminate the multifaceted nature of immigrant entrepreneurship and its varying impacts across different geographic and economic contexts. The increasing recognition of migrant entrepreneurs' contributions and the complex challenges they face signal a crucial area for further research and policy development, especially in regions previously overlooked, such as the Balkans. Addressing the existing research gaps and fostering a deeper understanding of immigrant entrepreneurship's role in economic development and cultural integration remains essential for harnessing the full potential of global migration trends.



	Key formal barriers	Key informal barriers
Non-EU, less developed countries	• lengthy asylum-seeking procedure (if applicable)	• considered to be **even bigger security (and health) threat than before COVID uncertainty** • perceived to expect social contributions only • ignorance
Non-EU, developed countries	• a work/business permit procedure • mandatory financial capital (10x or 200x higher than for the EU / native entrepreneurs) • obligation to employ 3 Croatian citizens • ambiguous/double procedures • **new Law on Foreigners – even more unfavourable** • **the effects of Brexit (if applicable)**	• **emphasised lack of social and cultural capital, i.e. lack of 'safety net'**
EU entrepreneurs	• absence of any written instructions in English • front office employees not speaking English	• discrimination (ethnic and racial origin, LGBT, gender, age) • limited openness towards other nationalities, races and religions
Native entrepreneurs	• administrative burden, inefficient public administration • unpredictable regulations, **incl. shops possibly closed on Sundays and ambiguous travel restrictions** • high tax rates and parafiscal charges • corruption prevalence • weaknesses of the education and health system • **arbitrary criteria for COVID support aid** • **earthquake (and floods) reconstruction activities** • **damaged offices, retail spaces and homes in Zagreb / Central Croatia**	• lack of entrepreneurial spirit • lack of understanding for entrepreneurship • **sense of uncertainty due to current health, safety (Zagreb/Central Croatia) and diminished purchasing power conditions** • **pre-election period (until mid-2020) resulting in pre-election populist (mostly anti-business) decisions and implications of new rules** • **predominant online networking (that is considered inferior to live networking)**

Figure 1: Key formal and informal barriers for immigrant entrepreneurs – updated for 2020 and 2021
(Source: Šimić Banović (2022))

Table 1 presents the formal and informal barriers faced by immigrant entrepreneurs in Croatia. Besides the persistent obstacles that were identified before the global COVID-19 pandemic, the obstacles caused by more recent exogenous shocks are listed in bold. These shocks mainly include the pandemic, earthquakes, floods and Brexit in addition to pre-election period specifics. The implications and consequences of those circumstances had an additional impact on foreign entrepreneurs starting and developing businesses. Regarding the informal barriers, it is valuable to observe the citizens' attitude towards immigrants. The most recent survey that gained media attention (Lilek, 2024) shows that the majority of citizens from the total pool of respondents who identify as voters of left-wing political options, i. e. about 80% of them - believe that migrants do not take jobs from Croatians, while about 55% of those from the sample of right-wing voters believe the opposite. Moreover, about 80% of left-wing voters disagree with the claim that migrants increase the level of crime, while, on the other hand, 64% of right-wing voters believe that immigrants increase the level of crime. When it comes to the impact of immigrants on the social system of Croatia, about 35% of citizens believe that immigrants are a threatening group in this area. This opinion again prevails among voters of right-wing political options. We can use data from the latest editions of European Social Survey (2024) to compare the position of respondents to immigrants in selected EU member states from various aspects. For example, Figure 2 shows the average score on the question "Immigrants make the country a worse or better place to live (0-10; from worse to better), while Figure 3 shows the average score on the question "Is immigration bad or good for the country's economy? (0-10, from bad to good)". We can notice that from the aspect of both questions, Croatia is relative to other Member States, more reserved towards immigrants when it comes to their role in the economy. In additon, Figure 4 shows the average scores within the question "Allow many / few immigrants from poorer countries outside Europe (From 1 - "Allow many to come and live here" to 4 - "Allow none")", Croatia stands relatively better to other CEECs, especially Hungary and Czech Republic.

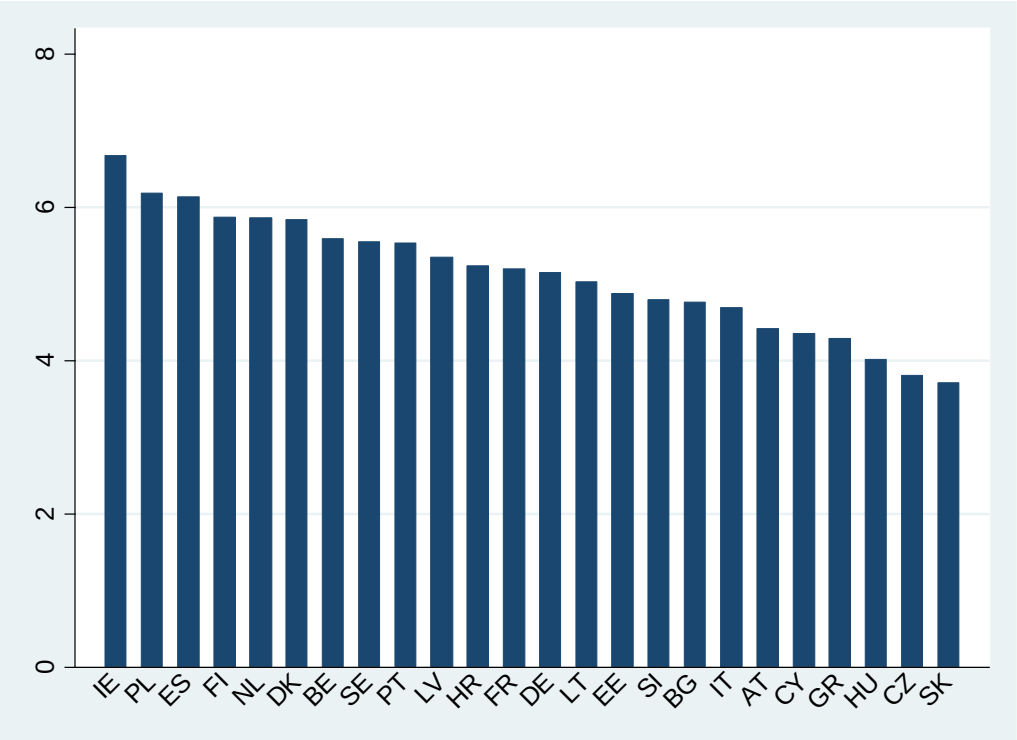


Figure 2: Immigrants make the country a worse or better place to live (0-10; from worse to better)
(Source: Authors' calculation based on European Social Survey data (2024))

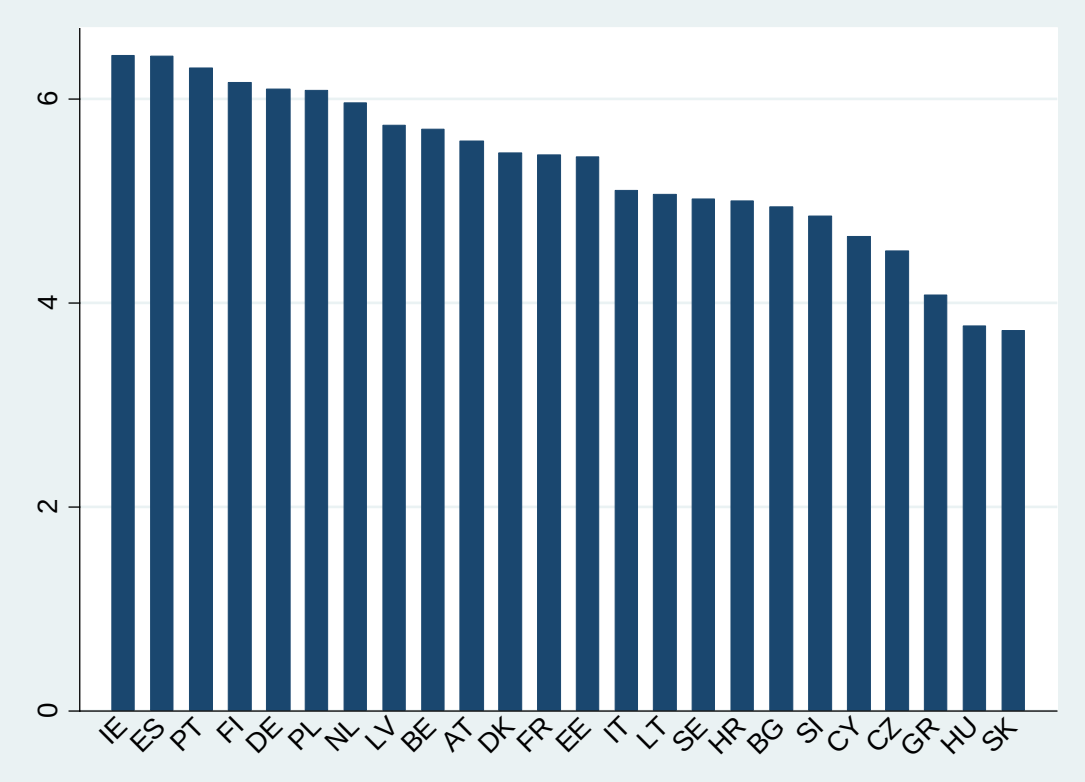


Figure 3: Is immigration bad or good for the country's economy? (0-10, from bad to good)
(Source: Authors' calculation based on European Social Survey data (2024))

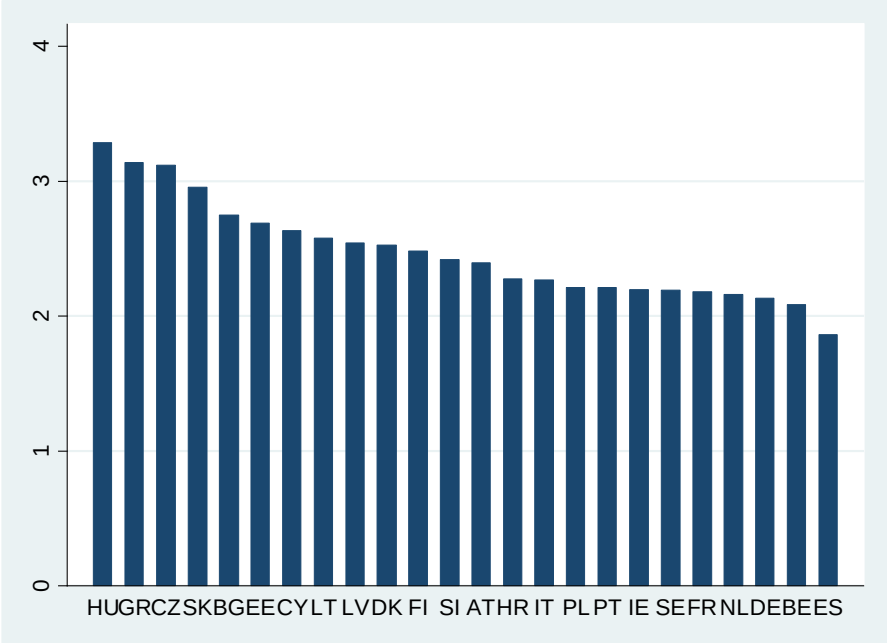


Figure 4: Allow many / few immigrants from poorer countries outside Europe (From 1 - "Allow many to come and live here" to 4 - "Allow none")
(Source: Authors' calculation based on European Social Survey data (2024))

Finally, when it comes to the immigrant entrepreneurs, their exact number in Croatia is not known; some projections could only be generated using the data on the self-employment rates, which is one of the possible measures for entrepreneurship found in the literature (e.g. see Caliendo et al., 2014). Figure 5 shows data on self-employment rates of foreign-born population, for Croatia, in the period from 2006 to 2022, relative to the EU27 average. We can see that the share of self-employed that are foreign-born is through the whole period larger than the average of EU27. However, these numbers could be overestimated since those born in BiH also belong to this category, but usually have dual citizenship.

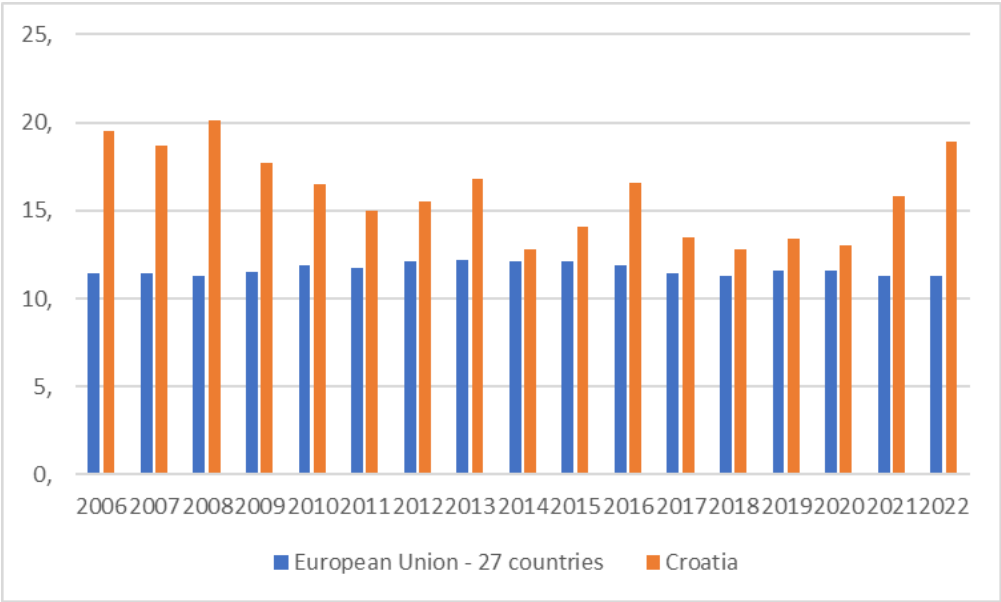


Figure 5: Self – employment rate of foreign-born population (% of total employment)
(Source: Eurostat (2024))

3. CASES: NEW IMMIGRANT ENTREPRENEURS IN CROATIA

In the next lines we proceed with the specific case studies of immigrant entrepreneurs from Sri Lanka, Romania and Egypt, to get insights into their success stories in Croatia.

3.1. Curry Bowl Restaurant

The story of the Curry Bowl restaurant (Sri Lankan Curry Bowl, 2024) begins with two brothers, Brian and Clement Senaratne, who, while traveling through Europe, fell in love with Zagreb and decided to return to offer the Croatian capital the best of Sri Lanka. The Senaratne brothers didn't come to Croatia just to make a living. Brian's arrival in 2014 was prompted by his love for a Croatian woman, and although that love story ended, a new one began, a love for Croatia and Zagreb. Brian worked at Microsoft and was also named Manager of the Year in Sri Lanka. Additionally, his brother Clement was employed in the telecommunications industry, and both were avid Formula 1 drivers. They decided to leave everything behind and create a new life in the Croatian capital. After a year of living in Zagreb, Brian concluded that the city lacked diverse gastronomic offerings and came up with the idea of opening a restaurant, with the assistance of his brother Clement, who already owned several restaurants in Sri Lanka. Therefore, he also relocated to Zagreb with his wife, a former Miss Sri Lanka (Antić, 2023). When they arrived in Croatia, they thought they wouldn't last three months – but today, they are doing so well that they are expanding their business. What was truly surprising is that within a few weeks, they managed to obtain all the necessary permits, visas, and paperwork. They don't understand the issues with Croatian bureaucracy because everything was ready for two IT professionals who, until recently, held prestigious managerial positions in the IT industry, to start a business they knew nothing about. Just a few weeks before the opening, the first and only Indian restaurant in Zagreb was closed, and unfortunately, Sri Lankan cuisine is still unfairly associated with Indian cuisine. Their website states, "Great food, great times!" and that's what they've adhered to since day one. Essentially, these are the three main ingredients in their recipe for success. In other words, the entire Curry Bowl experience revolves around food, atmosphere, and staff. They offer authentic Sri Lankan cuisine but emphasize the good atmosphere and friendly staff, who are always ready to converse in English with international guests and in Croatian with locals. Without these elements, tasty food would mean nothing. That's why they prefer young Croatian staff, with little or no experience. They have about 30 employee’s off-season and around 40 during the season. Until 2021, the vast majority (over 95%) of employees were Croatians. Today, a quarter of the employees are from Sri Lanka, and the rest are Croatians. During COVID, they had strong government and city support and didn't have to lay off anyone. What's specific to them is that they send their employees for training. So, besides importing chefs from Sri Lanka, they also send people from Croatia for training in Sri Lanka. First, they pay for a culinary course in Zagreb, and then they send them to Sri Lanka to broaden their knowledge because they believe in investing in people, which always pays off. The Curry Bowl restaurant was born with the idea of bringing exotic Sri Lankan flavors to Europe. From the very beginning, the restaurant was a huge hit among the local population and Zagreb tourists who fell in love with the Curry Bowl. For several years in a row, they were the number one restaurant in Zagreb on the famous TripAdvisor, which includes almost a thousand restaurants in Croatia. Believe it or not, Sri Lankan cuisine in the heart of Zagreb consistently topped the list. Knowing both worlds, the duo emphasizes that everything is much simpler here because we have European funds, which they've never heard of in Sri Lanka. They are surprised by Croatian unemployment benefits because such a thing doesn't exist in their country. In Sri Lanka, if you lose your job, you starve, while here, the government provides benefits for unemployment (Knez, 2019). They believe Zagreb is a perfect blend of peace and excitement. You can go to the main square and be surrounded by people, and then take a 5-minute walk to Ribnjak Park and enjoy solitude.

As for Croatian cuisine, they enjoy pork and Adriatic squid. Brian and Clement work a lot, around 12-14 hours every day, seven days a week. Since they love their job and socializing with people, it's not exhausting for them. Besides the Curry Bowl restaurant, they also sell their products at another location during Advent in Zagreb, on the island of Obonjan, and at the Ultra festival in the summer. They also opened a hostel in Zagreb because they enjoy meeting people from all over the world, hence the name Whole Wide World hostel. They distribute Lion beer in their restaurants. In the spring of 2023, they opened another restaurant in Belgrade (Curry Souls - Sri Lankan Street Food) and are simultaneously trying to find a new space for a much larger restaurant in Zagreb, and maybe reopen the restaurant they had on the island of Obonjan near Šibenik before the COVID pandemic. They are also considering Split. What is especially important is that anyone who wants can take their franchise and have their version of their restaurant tomorrow, which was their main idea from the beginning. The "Sri Lankan Curry Bowl" concept was designed to introduce South Asian cuisine to the modern world of food and beverage franchises. It's no secret that the global trend of South Asian-flavored food is on the rise, and the goal was to create an efficient franchise business model that would overcome the challenges posed by the complexity of South Asian cuisine. In conclusion, we can say that in many ways, the story of the two brothers from Sri Lanka is the realization of the famous American dream, but in a Croatian way.

3.2. Break Time Nautical Bracelets

Romanian Mirela Rus first visited Croatia in 2002 when she worked on several cross-border projects with other journalists from this part of Europe. A Croatian journalist invited her to his weekend house in Vinišće, where she immediately fell in love with the Adriatic Sea, and with her life and business partner, Leonard Copoiu, began to consider a permanent move to Croatia. Their plan was to buy land, build a villa, and start renting it out to tourists. Mirela's husband Leonard had successfully dealt with real estate in Romania - with several residential buildings and villas built in the nine years before the move, while Mirela worked as a journalist for BBC Radio and later for the European Parliament. In Croatia, they decided to seek a less stressful lifestyle. However, just a few months before they were supposed to come to Croatia, in June 2015, they suddenly learned that due to changes in the land laws in Vinišće, where they had bought land, they wouldn't be able to build for at least several more years. It's still not completed, but it's planned for this year. At that moment, they knew they had only two options: to stay in Bucharest with no perspective or to come to Croatia with no plan and hope for the best. Since they had already mentally relocated, they eventually made the move (Dukić, 2022). However, they didn't want to waste time waiting for permits to start construction, so they turned their husband's hobby, which he used to relax after hard days at the construction site by making handmade bracelets, into their main business. While living in Romania, Leonard procured nautical ropes and elements and made bracelets as a great escape from the stress he faced as an entrepreneur. Initially, he made them for fun, but since their friends liked them, they created a Facebook page and a website. When they continued this in Croatia, everyone saw them as odd and said they wouldn't succeed because it was winter and no one would come. It was tough for them in the beginning, and it took them several months to reach their first customers. They opened their first store in Split in December 2015, with no knowledge of this type of business and knowing only about 20 Croatian words. However, opening the store in December paid off because they were already established by summer time when guests started arriving. Thus, Break Time (Break Time, 2024), their brand of handmade nautical-inspired jewelry, was born. In the summer of 2015, they decided to rent a tent at the Croatian Boat Show in Split and see if they could sell anything there. They were surprised by the extraordinary success because they literally sold out all the bracelets Leonard had made the day before. In the spring of 2016, they opened another shop in Dubrovnik.

In short, from 2017 to 2019, they opened four more stores - two in Istria, first one in Poreč, then one in Rovinj, another in Split, and one in the center of Zagreb. Thus, in the past eight years, they opened and closed five stores. Since they were hit hard by the COVID-19 pandemic, they are back to just one, the one where it all started, in Split at Trogirska 8 in the old town, near the fish market. Despite the general impression that entrepreneurship in Croatia is burdened by prolonged and complicated bureaucracy, Mirela and Leonard were very quickly done. They were also intimidated by many about corruption; they were told that they wouldn't be able to do practically anything without the infamous "blue envelope." So, they walked around with money and were prepared for the fact that they would have to pay someone at some point to resolve their request. But it wasn't like that at all; they had no problems. However, one thing unpleasantly surprised them. As company owners, they are obliged to pay a certain amount annually to the Croatian Chamber of Economy (CCE). This wouldn't be a problem for them if they knew that they benefited directly from the CCE, such as receiving notices of what they had done with their money or if newly minted entrepreneurs, especially those of migrant origin who were not fully familiar with society, could find all the key information they need about starting a business in Croatia on the CCE website. Today, Leonard makes all the bracelets, necklaces, and keychain pendants, and Mirela is responsible for running the shop. Every year, they try to come up with new bracelet designs, and they now offer a completely new collection of bracelets made entirely of titanium with nautical-inspired pendants (sea turtles, dolphins, boats, rudders). They also make collars and leashes for dogs to order from American material BioThane, which looks like leather but is odor-resistant and can be cleaned with soap and water. Despite their not-so-easy business journey, Mirela and Leonard have achieved remarkable success in Croatia, operating as a small tourism-oriented craft, thanks to the support of their clients who buy their handmade nautical bracelets that can be transformed into fantastic unique pieces with personalized engraving. It's also important to note that besides buying in-store in Split, bracelets can be purchased online where clients have the opportunity to participate in the #SaveMarineLife campaign, where a percentage of each sale goes as a donation to the Blue World Institute, contributing to research and conservation of marine life in the Mediterranean. Thus, a Romanian woman and a Romanian, guided by love for the Croatian coast and steely will and perseverance, have created a truly impressive authentic Croatian brand and realized their dream of a quieter life than the one they lived.

3.3. Hairdresser Ayman

Ayman's hometown is Al-Minya, an industrial city on the western bank of the Nile, 245 km south of Cairo. He worked as a hairdresser there. He got married and had children, but he decided to seek happiness elsewhere. His wife supported him without too many questions. Ayman just wanted peace and a different life for himself and his family. Different from what he had in the place where his parents, brother, and sister still live. And since he left, he hasn't returned. He left Egypt in 2016. He headed towards Western Europe, traveling the route like Syrian refugees. He only took part of the journey by car; the rest he walked. His first stop was Hungary, where he decided to stay and seek asylum. They kept him there for a year; he even worked as a hairdresser, but they didn't approve his stay, and they deported him back to where he supposedly came from, to Croatia. He didn't plan to stay here, but that's how it happened. Although it wasn't easy, in 2018, Ayman got his papers and started working. Initially, he worked in a hair salon near Kvaternik Square in Zagreb and learned the language to better adapt. He soon realized that Croatia and Zagreb were very good and safe places to live where he and his family would finally be well and live in peace. Every beginning, including his own, wasn't easy. Ayman vividly lived in a city he knew nothing about and had no idea how Croatian administration worked, which oddly enough helped him.

While working for his boss in a hair salon close to Kvaternik Square, he got the idea to start his own business, namely, to open his own hair salon. He began to inquire slowly about what he needed and encountered great support from friends and even strangers he didn't know. Although he faced quite a few administrative obstacles, within a few months, he managed to rent a business space and start his journey, but this time, business-wise (Puškarić, 2023). Today, Ayman is a successful entrepreneur in Croatia, and although he still doesn't speak Croatian perfectly, he is on the right track. Not only does he have a perfect hairstyle and a styled beard, as expected of the owner of a fancy barbershop in Vrbik, but he also doesn't stand out in appearance from any peer in Zagreb who takes care of himself. He is a sporty type, and his love for sports is evident when entering his salon - a wall adorned with framed football jerseys catches the eye. One of his favorite clients, among others, is the famous Croatian footballer Joško Gvardiol. Ayman & the Barbers (Index, 2024), as his salon in Vrbik is officially called, is not Ayman's first location. He opened the first one earlier, at the beginning of 2019, when he got his papers. He called it "Only Here" because he imagined that the hairstyles he envisioned could only be done in that place in the city. 'Only Here' is just a few meters away from the salon he is in now. The former is smaller, a bit less impressive, while the current one is larger, more modern, more impressive, and tells the story of how Ayman has grown as an entrepreneur and employer in Croatia. There are still Dani Olmo, Bruno Ivanušec, Roko Jurišić, and many others who follow his salon on Instagram, making Ayman exceptionally popular among footballers, but also among other athletes who seem to consider him the favorite hairdresser in town.

4. CONCLUSION

Immigrant entrepreneurship holds untapped potential for countries like Croatia, where its extensive benefits have not been widely recognized, supported nor utilised. Immigrants worldwide are shown to be 'job makers' rather than 'job takers', bringing innovation potential and 'spillover effects' that boost the capacities and capabilities of local entrepreneurs. Furthermore, their contribution can significantly enrich the local tourism offer (and service sector in general), as presented within this paper on selected case studies. These advantages highlight the imperative to dismantle key barriers to doing business, which have been pinpointed by foreign nationals. By easing these hurdles, Croatia could not only aid local entrepreneurs but also appeal to digital nomads who are considering prolonging their stay in Croatia. Both the statistics and case studies presented in this paper reinforce the afore-mentioned claims extensively researched in the international literature on migrant entrepreneurship. Croatia's allure as part of the European Union, Euro- and Schengen area is unmistakable, and embracing immigration could be a strategic response to its challenges, such as the negative migration balance and the scarcity of labour across various sectors. The interaction between local and migrant entrepreneurs can be a conduit for shared growth, with the former benefiting from the latter's resilience and resourcefulness, especially during times of economic distress. To maximize these mutual benefits, two primary mechanisms need to be further researched and established: First, there should be learning processes through which native entrepreneurs can assimilate the strengths of their migrant counterparts. Second, concerted efforts are required to raise awareness about the advantages that migrant entrepreneurs bring to the local economy and society. This awareness can lead to a more inclusive and progressive entrepreneurial ecosystem, where both local citizens and immigrant entrepreneurs can see and use the advantages.

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