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CONTENT

<i>Preliminary communication</i>	
Dragan Gabrić, Željko Bošnjak	The empirical analysis of the features of material misstatement in the financial statements of companies in the Federation B&H
Amer Omanović	Survey on the importance of early detection of crisis and its impact on the company performance
<i>Review</i>	
Ivana Načinović Braje, Luka Bosnić	Employee compensation in small enterprises: current status and role from managerial perspective
Valentina Šabelj, Marko Perić, Jelena Đurkin	Perception and implementation of spirituality in the project environment
<i>Professional paper</i>	
Goran Kutnjak, Iva Adžić Kušt	Implications of globalization on the business environment and social changes in the Republic of Croatia
Bojana Olgić Draženović, Mario Pećarić, Stella Suljić	Institutional investors in the selected new members EU Countries
Papers of IV. Scientific Conference „Situation and Perspectives of Accounting Profession in countries of Southeastern Europe“, Vlašić, 2017	
Bojan Ćurić, Naida Nurkić	Problems and limitation in financial reporting of local self-governments in B&H
Dina Liović, Blaženka Hadrović Zekić, Ivan Družić Lutilsky	Outsourcing the accounting function - the cost management strategy within transaction costs economics
Mirjana Hladika, Ivana Valenta	Integrated reporting – new platform of corporate reporting

Ivana Perica, Marko Čular

Rotation of audit firms

Hrvoje Perčević, Marina Mićin

The interdependence between the movement of net assets of investment funds and gross domestic product in the Republic of Croatia

Lajoš Žager, Ana Ježovita

The relevance of the assets structure for the liquidity evaluation

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THE EMPIRICAL ANALYSIS OF THE FEATURES OF MATERIAL MISSTATEMENT IN THE FINANCIAL STATEMENTS OF COMPANIES IN THE FEDERATION OF B&H

Preliminary communication

Abstract

One of the most important products of the accounting system are financial statements. In this context, financial statements are important source of information for business decision-making. The subject of this paper is the research of characteristics and sources of the most common areas of material misstatement in the financial statements of companies in the Federation of B&H. The aim is to explore the most common areas of material misstatement and to determine general sources of accounting manipulation in the financial statements of companies in the Federation of B&H. The research was conducted on a sample of companies from the capital market in the Federation of B&H in the period from 2010 to 2014. The collected data were analyzed using the descriptive and inferential statistics methods, and the obtained results are presented in graphics and tables. The research results indicates that the most common areas of material misstatements are the items of fixed assets, inventories and short-term receivables. Also, research has revealed that material misstatements in companies in the Federation of B&H mostly appear in the form of overpriced asset items, that results in hidden (latent) losses in the financial statements.

Keywords: *financial statements, material misstatement, hidden reserves, hidden losses*

JEL: M41, M42

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SURVEY ON THE IMPORTANCE OF EARLY DETECTION OF CRISIS AND ITS IMPACT ON THE COMPANY PERFORMANCE

Preliminary communication

Abstract

Uncertain future and the changes that are happening unimaginably impact on a business of the company from which economic dynamics, innovation and permanent adaptation are being sought today. In order to survive in the market, companies have to notice any change and react on it on time. Anticipated crisis management aims to take measures against the crisis, if it happens at all in the future. Activities of this management are based on the elimination of uncertainty. Entrepreneurs that are facing with uncertainty, undertake their further steps with the elements of risk. The crisis usually happens without previous warning and therefore it is important that action plans are ready to remedy the situation and restore operations into normal track in the short term period..

The subject of the paper is based on the importance of early detection of crisis. The working hypothesis is that timely detection of the symptoms of the crisis by the management and adequate decision making have positive impact on the business performance. The research was conducted on the territory of Bosnia and Herzegovina on a sample of 100 companies. The data were obtained through a survey form, and induction, comparator and synthesis methods are used for conclusion. The empirical results are analyzed in the statistical program SPSS. Special attention was paid to the chronological course of the crisis. The first is the strategic crisis, then followed by the crisis of success, and the liquidity crisis is at the end.. Respondents expressed a high level of agreement with statements, but the results of application are low. Managers with more years of experience report to have a higher level of applications. Information about the crisis is obtained late and mostly from companies' accounting..

Keywords: *crisis management, disclosure of crisis, symptoms of the crisis, business performance, liquidity*

JEL: M21, H12

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EMPLOYEE COMPENSATION IN SMALL ENTERPRISES: CURRENT STATUS AND ROLE FROM MANAGERIAL PERSPECTIVE

Review

Abstract

Compensation management is an essential part of the human resource management. In order to increase market competitiveness and to attract and retain key employees, small enterprises must also pay attention to employee compensations. Due to the fact that human resource management, as well as compensation management, is less formalized within a small enterprises when compared to large ones, the existing knowledge on compensation management within large enterprises cannot be transferred to small enterprises. In small enterprises owners/managers design compensation packages by themselves that should attract, motivate and retain employees.

In order to understand current status and the role of compensation management within small enterprises a research was conducted among managers of a small enterprises in Bosnia and Herzegovina. In general, respondents do not find compensation to be the key element in attracting and retaining employees in small enterprises. Still, there are some differences among respondents based on their position within the company. Managers that do not have a majority ownership stake in the company give more importance to employee compensation. Additional analysis of selected material and non-material compensations and their role in improving motivation has shown that highest rated factor was base pay. Besides base pay, respondents emphasized the quality of work life and share of responsibility. Although small enterprises' managers do not find compensation as the key for improving motivation, they are aware of the importance of selected compensation elements, both material and non-material ones.

Keywords: *employees compensation, material compensation, non-material compensation, small enterprises*

JEL: M52

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PERCEPTION AND IMPLEMENTATION OF SPIRITUALITY IN THE PROJECT ENVIRONMENT

Review

Abstract

As a complex term without a generally accepted definition, the spirituality is increasingly explored from different aspects. In the context of business, spirituality is especially important in answering the challenges of modern entrepreneurship and management. The external factors such as advances in technology, a stressful environment, the need to adjust to permanent changes, the inability to separate business and private life are some of the examples of 21st century human life that create a negative environment for growth and development and inability to realize potential and success in all areas of life. In this respect, spirituality can be linked to the personal development of the individual, the pleasure and motivation of the employee as well as the concept of organizational culture. In the context of project management, spirituality and spiritual virtues can significantly contribute to the effectiveness of teamwork, employee satisfaction and productivity, but these concepts are not sufficiently recognized by project managers. This study provides new insights on the perception of spiritual virtues by project managers and the possible implementation of spirituality in different areas of project management. The results indicate that spirituality is particularly important in project human resource management and project communication management.

Keywords: *project management, spirituality*

JEL: M10, M50, Z10

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IMPLICATIONS OF GLOBALIZATION ON THE BUSINESS ENVIRONMENT AND SOCIAL CHANGES IN THE REPUBLIC OF CROATIA

Professional paper

Abstract

Globalization, as a very layered and dynamic world process, has affected all spheres of social life and it is especially causally related to the economic trends of particular national economies. Through its action, globalization provides countless possibilities, while at the same time causes a whole range of problems within the desired functioning of all factors of the social life of an individual countries. The developed countries that have created their own development mechanisms within their boundaries and created economic policies and measures, projected an economic growth and development on real grounds, are successfully confronting the challenges of globalization, that produced many benefits, positively affecting the quality and standard of living of its citizens. The implications of globalization are evident in the Croatian economic environment. Unfortunately, most often very negative, which implies that the institutions of the Croatian state, but also the business entities themselves, did not engage adequately in the preparation, designing of appropriate strategies and implementation of system solutions and thus did not achieve the stated goals of increasing the competitiveness of the Croatian economy. Republic of Croatia is not adequately prepared to respond to the temptations and demands of this complex process and try to keep the distance with a competition by improvisation and "ad hoc" solutions, which is simply not possible. Poor entrepreneurial climate prevails, passivation has become an established business practice, reforms are not implemented, economic migration has become ubiquitous. The purpose of this paper is to explore the impact of globalization on Republic of Croatia and its consequences on social changes in the country. This paper analyzes the current economic situation and situation in the country, while the special attention is given to entrepreneurship. It also analyzes the factors that have led to a negative entrepreneurial climate. The aim of the research is to point to the economic and social problems within the country and try to suggest a concrete solution for the neutralization and annulment of the mentioned social and economic anomalies.

Keywords: *globalization, Croatia, entrepreneurship, processes, development opportunities*

JEL: F6, F64

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INSTITUTIONAL INVESTORS IN THE SELECTED NEW MEMBERS EU COUNTRIES¹

Professional paper

Abstract

Institutional investors as financial institutions that primarily invest in marketable securities, greatly contribute to the demand side of the financial market development. The phenomenon of the growth of institutional investors is particularly important for financial markets of the new EU member countries, including Croatia, which are evolving and taking the configuration of the mature financial systems. Specifically, the greatest impact on the design of financial systems of the new EU member states had reforms of ownership structures and reforms of the pension system. Methods of privatization by issuing shares led to increase of supply in the capital markets, while the impact of pension reforms manifested in strengthening the demand side of securities. The aim of this paper is to point out the determinants of investment funds, pension funds and insurance companies in selected new EU member states.

Keywords: *institutional investors, pension funds, investment funds, insurance companies, pension reform*

JEL: G22, G23

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PROBLEMS AND LIMITATION IN FINANCIAL REPORTING OF LOCAL SELF-GOVERNMENTS IN BOSNIA AND HERZEGOVINA

Review

Abstract

The paper discusses the most important but also the most usual irregularities in financial reporting of local self-governments in Bosnia and Herzegovina (Republika Srpska and the Federation of BiH), which are determined by conducting financial audits by supreme audit institutions in BiH responsible for audits of local self-governments (The Supreme Office for the Republika Srpska Public Sector Auditing and Audit Office of the institutions in the Federation of Bosnia and Herzegovina). The paper will analyze the audit reports of local self-governments that have been published in the last four years in order to systematize or sublimate determined irregularities identified in these reports through several questions and present them, and in this way, to actively prevent the situation in those local self-governments that still have not been audited or will be subject of audit in the following period. Part of these problems comes from the applied concept of financial reporting and the general inconsistency of budget accounting, but most of all due to incorrect approach to budget planning and its unrealistic execution. On the other hand, the survey enabled the comparison of determined irregularities in the audit reports between the two entities and two audit institutions, and certain characteristics (similarities and differences) are also made in the system of financial reporting and errors that occur in it.

It is very important to identify and analyze these problems in order to identify the possibilities for their overcoming in order to improve the situation in the financial reporting of local self-governments because insufficient information and knowledge about financial reporting can lead to wrong decisions or wrong public changes. On the other hand, it also questioned the justification and survival of the existing system of financial reporting in the public sector in conditions of excessive budget spending as a systemic problem in BiH.

Keywords: *financial reporting, audit reports, local self- governments*

JEL: M41, M42

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OUTSOURCING THE ACCOUNTING FUNCTION - THE COST MANAGEMENT STRATEGY WITHIN TRANSACTION COSTS ECONOMICS

Review

Abstract

Transaction cost economics (TCE), an interdisciplinary approach that explains the emergence and operation of a company, can be diversely applied in everyday business, e.g. in making business decisions or in analyzing the management structure of the relationship buyer – supplier. This approach considers total operational costs, especially the costs of contracting and negotiation, and also the management process which provides a definition of company boundaries. This explains why some companies perform certain tasks on their own, while others contract other companies who are more competent in a particular field. In this context, it is also possible to apply transaction cost economics to outsourcing, which is a cost management strategy used to deal with certain non-core business activities. In this way, it is possible to get high-quality services at lower costs, while the company can focus on its core business. The core business function studied in this paper is the accounting function, which plays a significant role in any company, regardless of its legal form, size or structure.

The primary aim of the paper is to relate the theoretical framework to practice and to indicate how the model could be used in business operations. The paper provides a detailed review of previous research and results obtained through the research regarding outsourcing of the accounting function within the transaction costs economics. In the literature review there is a special emphasis on the context of determinants and factors that lead a company to decide to outsource their accounting functions. The impact of such outsourcing on company performance is analyzed using the transaction costs economics. This seems to be necessary given that there is no carried out research within this context in the Republic of Croatia, but also taking into account the (still) numerous concerns and controversies surrounding the concept of outsourcing.

Keywords: *transaction cost economics, outsourcing, accounting function, accounting service*

JEL: D23, M41, M55

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INTEGRATED REPORTING – NEW PLATFORM OF CORPORATE REPORTING

Review

Abstract

Today, the market is continuously and rapidly progressing and changing. Awareness of social responsibility, environmental protection and human rights is becoming ever greater and more pronounced. Information technology is rapidly developing; climate changes and their effects are evident. Such trends in contemporary market have triggered changes in corporate reporting. The importance and significance of integrated reporting by comparison with traditional financial reporting is increasingly emphasized. The information needs of investors, creditors and other interest groups for the purpose of making business decisions, primarily investment and financing decisions exceed the financial information presented in the financial statements. In order to different stakeholders could evaluate business operations, they need different information to get a wider picture of business operations. Financial statements provide information on the financial position, financial performance and cash flows of the company that are the result of past business decisions and relate to past periods. Investors require information which will be useful for assessing the company's earnings and cash flows in the future period or periods. Such estimates are possible if investors have information about the company's business model, strategy and risks to which the company is exposed and the way it is managed. Based on this information, stakeholders are able to estimate the company's capacity to create sustainable value in the short, medium and long term, or how the company will generate sustainable value in the business environment in which it operates. By publishing of nonfinancial information, together with financial information, the company's transparency is strengthened and users gain a higher level of confidence in the business and the perspectives of such companies. Today, such nonfinancial information is being published coherently in integrated reports along with financial information. The purpose and aim of this paper is to investigate whether and to what extent the listed companies on the Zagreb Stock Exchange and on the selected world stock exchanges publish integrated reports. In addition, the objective is to explore which framework is used for the preparation of nonfinancial statements.

Keywords: *integrated reporting, corporate transparency, sustainable value, social responsibility*

JEL: M40, M41

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ROTATION OF AUDIT FIRMS

Review

Abstract

The issue of auditor selection, i.e. audit firms, is a current and open issue, both from the aspect of regulation of audit profession and from scientific aspect. The basic question is the effect of audit engagement duration influence on the audit quality. In most cases, there are good relations between auditors and management, where company does not often change its auditors. On the one hand, such long-term engagement can contribute to the audit quality because auditors better understand audited clients and his financial aspects. On the other hand, the duration of the engagement may be related to the auditor risk of independence and therefore the obligation of the rotation of authorized auditors has been introduced, and soon the application of Regulation (EU) 537/2014 will also introduce the obligation of rotation of audit firms. The aim of this research is to analyze the average duration of audit engagement in the Republic of Croatia, to determine whether the rotation of audit firms is related to the type of audit opinion, the type of audit firms and the specific financial indicators of audited company.

The study was conducted on a sample of 114 listed companies in the period from 2009 to 2014. The obtained results indicate that rotation of audit firms in Croatia is still rare, so listed companies are more inclined to develop long-term relations with audit firm. Furthermore, the results show that there is a difference in rotation of audit firms, given the type of audit opinion, and it does not exist, given the type of audit firm, as well as no relationship of rotation with the financial results of the audited company.. The research results could be interesting to scientists, auditors, audit associations, auditors, regulators, and other stakeholders.

Keywords: *rotation of audit firms, type of auditor's opinion, type of audit firms, financial indicators*

JEL: M42

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THE INTERDEPENDANCE BETWEEN THE MOVEMENT OF NET ASSETS OF INVESTMENT FUNDS AND GROSS DOMESTIC PRODUCT IN THE REPUBLIC OF CROATIA

Review

Abstract

Investment funds are becoming more and more important participants on the capital market in the Republic of Croatia, ie investors increasingly use investment funds as one of the possibilities for investing liquid funds. The basic objective of investing in shares and units of investment funds is to achieve satisfactory return on invested funds with respect to the anticipated investment risk. Investing in shares and units of investment funds represents an interesting form of investment, especially the so-called small investors, since a large number of so-called small investors does not have enough relevant knowledge and experience in the area of investment analysis and the capital market and therefore they can not form an investment portfolio that will disperse the risk of investment. Since the investment fund managers form a portfolio of securities based on the diversification principle, small investors indirectly disperse the investment risk by investing in shares and units of investment funds,. Therefore, small investors who potentially have lack of knowledge and experience to access the capital market themselves, are enabled to participate in the capital market over those who have the knowledge and opportunities. The price of unit in the fund, ie, the net asset value of the fund is calculated on a daily basis and it depends on the movements in the price of securities included in the portfolio of the fund. Capital stock market prices are linked to the gross domestic product (GDP), ie when the economic situation in the country is favorable, GDP rises as well as stock prices. In other words, the growth of a country's economy affects GDP growth, as well as the growth in market prices of securities. The increase in market prices of securities consequently affects the growth of net assets of investment funds, and vice versa. The basic objective of this paper is to investigate whether the movement of net assets of investment funds is consistent with the movements of GDP, ie whether there is a correlation between these two variables. The paper analyzes trends in the value of net assets of investment funds and GDP in the Republic of Croatia.

Keywords: *investment funds, net assets, gross domestic product, Republic of Croatia*

JEL: M41

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THE RELEVANCE OF THE ASSETS STRUCTURE FOR THE LIQUIDITY EVALUATION

Review

Abstract

For today's business conditions affected by unfavourable economic environment and general illiquidity it is of great importance to consider the ability of a company to timely provide adequate amount of cash to settle its due liabilities. For every company the most important source of cash inflows is related to its core business, which includes selling goods and services. Because of using the accrual basis in accounting, revenues occur irrespective of whether the money was received at the moment of sale or the sale was carried out on the credit. In case when the sale was carried out on the credit, accounts receivables occur, and in the moment of collecting those receivables, the company receives cash needed to settle its liabilities. That interpretation of the operating cycle emphasise the importance of all current assets categories in cash gap and liquidity management. Next to that, when conducting the assessment it is important to consider size, business activity and location of the company. Traditional liquidity ratios as quick ratio, current ratio and financial stability ratio have great importance in assessing an ability of the company to settle its current liabilities, but using additional dimension of assessing the efficiency of current assets management provides more comprehensive conclusion on the company's financial position.

Keywords: *assets structure, liquidity, solvency, cash gap*

JEL: M41, G32