



# Comparative profitability analysis of foreign direct and domestic investment in hotels of Bosnia and Herzegovina

Sanel Halilbegovic\*, Emina Ciber (Research fellow),  
Nedim Celebic & Ermin Cero  
International Burch University  
Francuske Revolucije bb, Ilidza Sarajevo 71210, Bosnia  
E-mail: [sanel.halilbegovic@ibu.edu.ba](mailto:sanel.halilbegovic@ibu.edu.ba)

Corresponding author\*

## Abstract

Over the past few decades, foreign direct investment (FDI) has become one of the most common forms of international investment. Researchers agree that this type of capital promotes financial growth while others believe that growth is hindered, therefore the main goal is to analyze to which degree FDI affects financial performance of hotels in Bosnia and Herzegovina. This comparative analysis is based on profit metrics (profit margin, return on assets and return on equity) of all domestic and foreign hotels in Bosnia and Herzegovina, covering a five-year period. For the purpose of this research, 412 hotels of Bosnia and Herzegovina were examined, with data collected from their audited annual financial reports. Using total population sampling, research is primarily focused on whether there is significant statistical difference in financial performance of domestic and foreign hotels. After having analyzed the annual financial results of all domestic and foreign hotels in the country, major results suggest that the overall model is only partially confirmed. According to regression outputs and the independent t-test, two out of three hypotheses are supported. Significant statistical difference exists both in profit margins and in ROE of domestic and foreign hotels, and the third hypothesis, stating that significant statistical difference exists in their ROA, is rejected. Furthermore, this analysis concludes what Bosnia and Herzegovina should improve on, including its particular laws and policies, in order to attract more FDI inflows.

**Keywords:** Comparative analysis, foreign direct investment, international investment, profit metrics, total population sample.

## Introduction

The Organization for Economic Co-operation and Development defines foreign direct investment as the class of international investment that considers the objective of a domestic entity in one economy to obtain a lasting interest in a venture company in another, foreign economy. Today, foreign direct investment (FDI) is one of the major forms of international



capital transfer and it has paid a lot of attention both at national and international levels and has become a common international borrowing and lending system. Along with the identification of important factors of FDI, objectives are to analyze the effects of this type of investment on the hotel industry. With this knowledge, it is easier for investors to decide whether to go with domestic or foreign investment in this sector of business. Investors are going abroad to ensure economic benefits when the host country is in acceptable economic stability and supports investment. In the last decade, there has been a great increase in foreign direct investment worldwide. Investment in the hotel sector is an important indicator of a country's economic growth and take up a significant part of the country's GDP. All investment expectations are based on investment opportunities and interests of potential investors, and Bosnia and Herzegovina is a very attractive destination for investment but is not using its full potential due to certain economic and political limitation.

However, foreign investor testimonials confirm that the country is a favorable destination for foreign investment, giving great optimism about future inflows of FDI. With the aim of increasing the investment potential of the country, a Foreign Investment Promotion Agency (FIPA) has been established. Based on data published in the Global Location Trends Facts & Figures report in 2018, Bosnia and Herzegovina is marked third in the world when it comes to number of jobs created within foreign direct investment projects, per one million people. Since the state almost always supports foreign direct investment, one of the main goals is to develop a model for assessing whether this type of investment for hotels is better than financing the business with domestic capital. According to UNCTAD (United Nations Conference on Trade and Development), FDI in tourism is relatively small compared to investment in other activities, as well as domestic investment. The tourism share in total global foreign direct investment is not more than 5 percent.

Foreign capital is both needed and well accepted in almost all countries of the world, but mostly in underdeveloped regions, where they often proved to be the main incentive for economic growth and development. However, there are some negative attitudes towards foreign investment among citizens, supported by the fact that a large part of assets in the Bosnia and Herzegovina is being bought by foreigners. This mostly relates to financial institutions, banks and real estate. Because of this, it is necessary to find justification of direct foreign investment as well as to understand their contribution to the well-being of local businesses. Tourism and hospitality in Bosnia and Herzegovina are two very fast-growing sectors, making up an important part in the country's economy. The business environment for these sectors is constantly developing, together with various active



promotional systems. In 2018, there was an increase of 12.1% tourist visits compared to 2017 with overnight hotel stays increased by 13.5%. Around 71.2% of these visits were by tourists from foreign countries. The desire of the investor is to achieve the highest rates of return, yet at the same time to avoid all risk. Some of the most important factors in making investment decisions are political and macroeconomic stability, market size, ownership rights guarantee, and economic openness. Financial viability, or the profitability of investing in hotels, is always a topic of discussion among investors. It is a fact that Bosnian and Herzegovinian hospitality, especially the hotel industry, is low-profit business, which is a consequence of huge investment, high fixed costs and a low degree of occupancy and restaurant capacity. Besides the mentioned, another common reason for low profitability may be seasonal character of this business.

Due to such importance of tourism on Bosnia and Herzegovina's economy, but also the effect of foreign direct investment on hospitality, this research analyzes whether hotels with foreign direct investment tend to have, on average, better financial results. The analysis is done to prove whether there is significant difference in financial results of domestic and foreign hotels in Bosnia and Herzegovina but may also serve a useful role in future research and analysis regarding FDI and the hotel sector. Finally, this analysis is mostly driven by the need to understand the actual importance of foreign direct investment for development of the hotel industry and is done with the aim to determine the degree to which foreign direct investment affects profitability of hotels.

### **Literature review**

To understand FDI, it is crucial to first understand why people decide to invest abroad rather than deciding to export or outsource. For this, there exist several types of FDI theories: traditional, modern and radical – traditional theories present FDI with its location-specific advantages, modern theories explain that markets are imperfect, and radical theories use a more critical view to explain activities of multinational companies (Piggott, 2006). Direct capital transfer is attracted toward areas with higher average rates of profit, which is described in the theory of capital markets disequilibrium, reasoning that companies may face certain advantages generated from technology, management or marketing (Kindleberger, 2002). Investors need to possess an advantage over domestic firms to make investment feasible, together with an access to imperfect markets – these imperfections are the main reason for the existence of foreign direct investment. FDI facilitates growth of recipient economies via capital directly and indirectly via positive spillovers and innovations (Bačić et al., 2004).

*Spillover effect* is the greatest benefit gained from foreign direct investment. It increases the overall productivity of host nations' resources by improving allocation, and FDI increases competition among firms in same sectors in the way of accelerating transfers of technology and bringing innovation to domestic firms. IMF distinguishes five categories of international financial transactions – direct investment, foreign portfolio investment, financial derivatives, other investments, and reserves (IMF, 2019). Globalization, liberalization and a stronger overall network of financial markets contribute to an increase in all these forms of financing, from classic borrowing to foreign direct investment ("OECD", 2003, "OECD", 2008). There is no single unified theoretical explanation on whether FDI affects hotel business positively or negatively and it does not seem that one will emerge in the future, but according to recent growth literature, there is strong dependence of growth rates of countries on the state of their domestic technology relative to that of the rest of the world ("CBBH", 2016). In the simple model of technology diffusion, the rate of economic growth of a country depends on the level of adoption and implementation of new technologies that are already existent in other more developed countries. FDI is assumed to be the major channel for access to new technologies by MNCs (Dimitrić et al, 2018). Efforts of developed country companies to implement FDI in less developed countries are affected by push and pull factors. Push factors may be industry specific (differentiation, costs, capacities, exchange rates, interest rates) or country specific (physical and natural resources, demography).

The basic pull factors include unstable government policies, corruption, indefinite laws, government bureaucracy, and high tax rates. Appreciation of the local currency of the investors may also increase the inflow of FDI. One of the most remarkable theories that relate to FDI is the Theory of industrial organization, according to which the expected yield of a foreign investment enterprise is higher than that of a domestic company to which is granted any favorable condition, such as lower costs or conquering a larger part of the market (Salvatore, 1991). As explained previously, there is no theory which proves that FDI directed abroad causes domestic exports and employment to fall. However, foreign-owned firms in host countries generally do have higher productivity than local firms, and they almost always pay higher wages than the domestically-owned ones.

There is an approach that contributes to understanding the effects of foreign direct investment on host countries, known as the 'Theory of international trade' (MacDougall, 1960), which examines how slight increments in investment from abroad are distributed. Its main premise is an increase in the marginal productivity of labor and a decrease in the marginal productivity of capital. For direct investment to happen, there must be some deformity or irregularity in the market or interference in competition by either the government or by firms, which separates markets. A related strand of



literature proposes that “albeit FDI does bring fresh capital into the economy, it reflects, to some extent, arbitrage activity by multinationals. Rather than driven by fundamental productivity arguments, this type of FDI is akin to foreigners opportunistically purchasing undervalued local assets” (Krugman, 2000; Aguiar & Gopinath, 2005).

The hotel industry is one of the most complex economic activities and is associated with a series of determinants on sides of both supply and demand. Business performance indicators in the hotel industry have been explored in many studies, from different perspectives and in different economies. A significant factor in running a hotel business is an appropriate reporting system that, given the complexity of the system, provides adequate information on all business segments. This is one of the prerequisites for targeting business policy towards increasing business profitability. Age of the hotel did not prove to be statistically significant when it comes to its profitability.

Changes in the hotel industry are very dynamic, requiring quick adaptation, and older hotels do not necessarily achieve higher profitability. There are external and internal determinants of business success in the hotel industry. Basic external factors include global economic trends, trends in the financial sector, climatic determinants and changes, and cultural aspects. When it comes to internal determinants of profitability, most important are: hotel size, degree of indebtedness, productivity, research and development allocation, profit for the past years, investment, liquidity and solvency (Škuflić & Mlinarić, 2015). Greater innovative activity improves profitability in the hotel industry (Sancho et al., 2004).

### **Research Methodology**

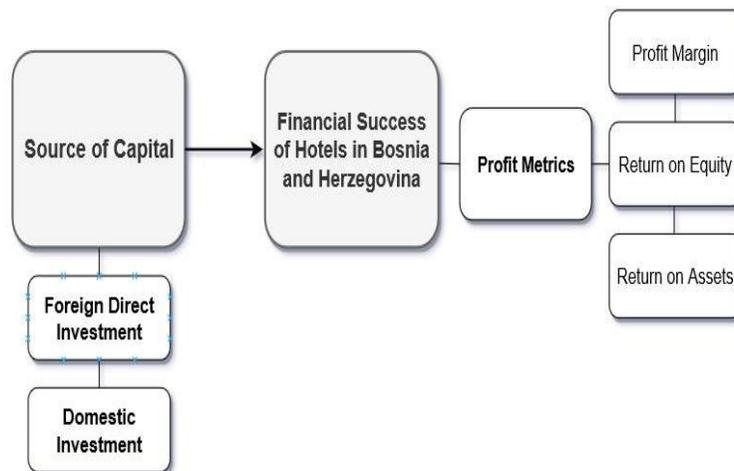
This is a comparative analysis based on a single methodology and the subject of this research are enterprises classified as hotel business, with business classification narrowed down to 55.10 (hotels and other accommodation). All financial statements used in this study were previously audited. For the purpose of research, a total population sample of all hotels located in Bosnia and Herzegovina is used. WTO (World Trade Organization) and UNCTAD (United Nations Conference on Trade and Development) databases are used to analyze previous annual FDI trends (“WTO”, 2016). For making comparative analysis, the research is based on audited financial statements of all 412 hotels for the period from 2012 to 2018.

Financial data was obtained from a BIS (Business Intelligence System) that keeps record of all hotels’ profiles, together with their annual financial reports, with main focus on statements of financial position (“Tron”, 2018). For this analysis, the focused is mainly on a regression analysis including

independent t-tests with 95% significance levels. This test is based on three parameters – profit margin, return on equity, and return on assets.

The null hypothesis is followed by three supporting assumptions that are comprised of profitability metrics (mentioned and explained in later context). Results imply to which level FDI actually impacts the profitability of hotels. Foreign direct investment is taken as the independent variable while the three parameters are considered as dependent: profit margins, return on equity and return on assets. By using independent T-tests, this analysis will show whether foreign domestic investment is statistically significant for the financial performance of hotels in Bosnia and Herzegovina and if there is difference in profitability means of domestic and foreign hotels. This research also analyzes the indicators of hotel performance in Bosnia and Herzegovina among hotels of foreign and direct investment. The research model is presented below.

**Figure 1.** Research model

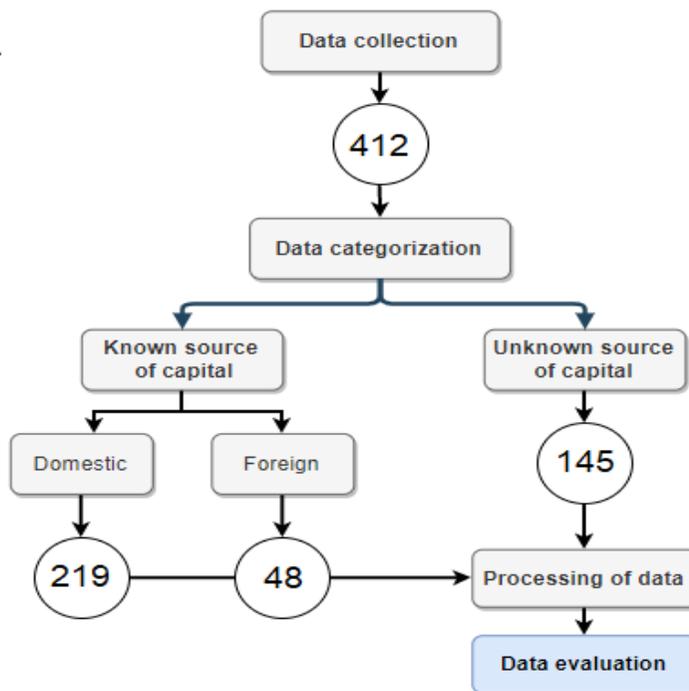


Source: Author's illustration

The relationship between foreign direct investment and the profitability of hotels is tested by applying regression models in IBM SPSS Statistics program. Data collected from observed hotels in Bosnia and Herzegovina was analyzed, and major findings showed that foreign direct investment is an important indicator of profitability. Key performance indicators of profitability (profit margin, ROA, and ROE) were implemented in the independent sample T-tests. Other relevant data on trends was collected from the official site of Central Bank of Bosnia and Herzegovina and the Foreign Investment Promotion Agency of Bosnia and Herzegovina.

Part of information originates from the Bosnian and Herzegovinian CPI database. After the collection of all data, including the list of names of 412 hotels and their financial statements from years 2012 to 2018, hotels were categorized into two groups, depending on the source of their capital – hotels with domestic capital and hotels with foreign direct capital ("CPI Foundation", 2019). Total number of hotels with domestic capital is 219 and 48 hotels are foreign direct investment. 145 hotels are grouped as hotels with unknown source of capital. After this categorization all data was entered into IBM SPSS and processed and evaluated in a regression, which is explained in the part of analysis.

**Figure 2.** Steps taken in the methodology of research

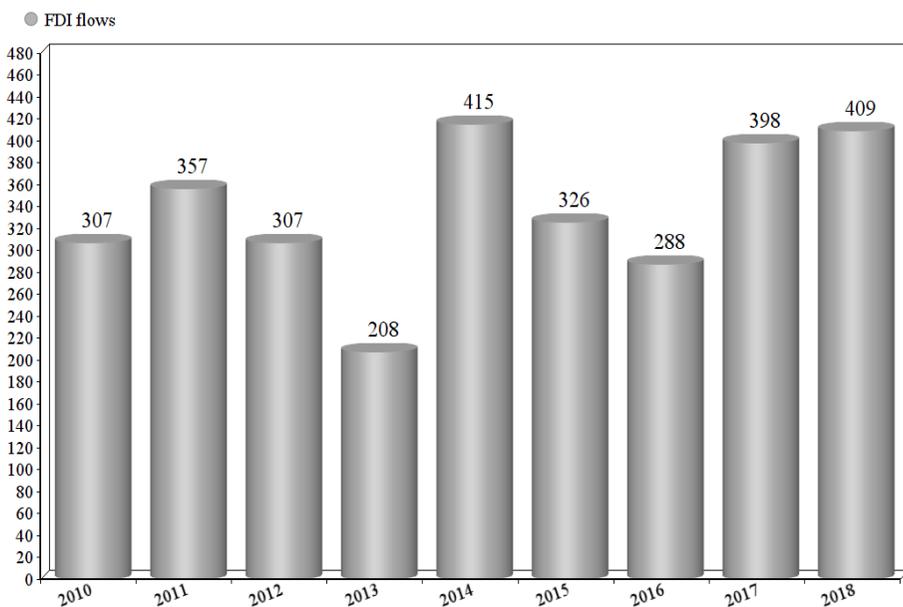


The analysis begins with a brief empirical research on foreign direct investment, its nature and its forms, and is later followed by statistical models that present the mentioned effects of foreign direct investment on profitability. The objective is to conclude whether domestic or foreign hotels end with better financial results. Hotel business is one of the main parts of tourism development and the main problem in the hotel industry is low profitability at a longer start, which often demotivates investors and then they decide to invest in other sectors of the business. Based on the UNCTAD data on the total number of registered foreign investment, Bosnia and Herzegovina is second in Southeastern Europe. The countries that invested most into the country in 2017 were: Austria with 187 million KM, Croatia with

102.0 million KM, and Slovenia with 101.7 million KM. ("Foreign Investment Promotion Agency of Bosnia and Herzegovina", 2019).

Direct foreign investment for 2017 amounted to 777.7 million BAM or 397.6 million EUR. Data for the period from January to December 2017 indicate an increase in foreign investment by 37.9% compared to 2016, or by 28.8% in relation to the five-year average (2012-2016). Based on preliminary data for the period from January to December 2018, the country could expect that foreign investment will keep a positive trend. According to the first data within the Balance of Payments (with estimated reinvestment earnings), FDI for 2018 amounted 800 million BAM, or 409 million EUR.

**Figure 3.** FDI flows in Bosnia and Herzegovina, by years, million EUR



Source: Author's construction. Central Bank of Bosnia and Herzegovina

The goal of the research is to assess the relationship between foreign direct investment and the financial performance of two groups of hotels – domestic investment and foreign direct investment – through three basic profitability parameters: profit margin, return on equity and return on assets.

### Data Analysis

This part of research is focused on regression analysis and includes output results of processed independent t-tests. Figure 4 shows simple statistics and includes sample size (N) with frequency distribution, mean, standard deviation, and standard error of mean. The total number of hotels studied is 412. It is necessary to note that this research is comprised of all companies

in Bosnia and Herzegovina classified as hotels (business classification code: 55.10), including also those in the processes of bankruptcy and liquidation. Out of 412 hotels analyzed, 219 have domestic capital and 48 are foreign direct investment.

Due to partial limitations on the study, not all information was accessible, and 35.19% (145 hotels) with an undefined source of capital were also a subject of consideration. These so-called system-missing values are values that are completely absent and are excluded by SPSS in the analysis data.

**Figure 4.** Group statistics output

		N	Mean	Std. Deviation	Std. Error Mean
PM	D	938	-1.1206442	14.21165586	.46402701
	F	149	-3.4468598	26.21624984	2.14771887
ROE	D	896	-.5342545	7.78542147	.26009268
	F	151	-20.0295041	164.28965263	13.36970232
ROA	D	1085	-.0410781	1.19372665	.03624015
	F	213	-.0668205	.47021616	.03221868

Source: Author's illustration, SPSS. BIS Database, financial statements 2012-2018

The mean, referring to the average of explanatory variable used to derive the central tendency of data in question, was determined by summing up the total population then dividing it by the number of points. The second column serves to show to us which group of hotels has a higher mean, and therefore has higher average profit margins, ROE, and ROA. In all three cases, regardless of sample sizes, means of group D (domestic hotels) are higher. By looking at the means you can see that on average all three profitability indicators tend to be higher for domestic hotels. We are also provided with a standard deviation that represents the amount of variation or dispersion and standard error for the mean of each of the two groups. The table implies on average how far the results are deviating from the mean; in this case the spread of data is obviously very different across groups of domestic and foreign hotels. For the regression analysis, there is one main hypothesis (the null) and three supporting hypotheses, as follows.

**H0: Significant statistical difference exists in financial performance of domestic and foreign hotels.**

*H1: Significant statistical difference exists in profit margins of domestic and foreign hotels.*

*H2: Significant statistical difference exists in return on equity of domestic and foreign hotels.*

*H3: Significant statistical difference exists in return on assets of domestic and foreign hotels.*

The null of the research is that significant statistical difference exists in financial performance of domestic and foreign hotels. In the analysis, significance levels are used to check if this main hypothesis is supported by results of the output. In simple econometrics, the most common way to do this is by performing hypothesis tests and constructing confidence intervals and then checking the confidence regions. However, in classical econometrics, the distribution of a test statistic is usually known only approximately, so for testing  $H_0$ , or the null, an independent samples T-test was used, with comparison of means of two independent groups in order to determine whether there is statistical evidence that the associated population means are significantly different. For the purposes of testing, aforementioned secondary data is used.

Using a 95% confidence interval, the main concern of the analysis if the significance value is greater than or less than 0.05. The difference between two groups is significant if it cannot be explained by chance alone, and a value greater than .05 means that the variability in the two conditions is about the same. At  $p$  equals 0.05, the differences between the two groups have only a 5% probability of occurring by chance alone. In order to completely confirm the null hypothesis, all of the three hypotheses (H1, H2, and H3) have to be supported. If only two hypotheses are supported, then our null is not fully but partially supported. What SPSS has given us in the outputs below are tests for equality of variances and equality of means.

**Figure 6.** Independent samples t-test (Levene's tests)

		Levene's Test for Equality of Variances		t-test for Equality of Means	
		F	Sig.	t	df
PM	Equal variances assumed	6.695	.010	1.611	1085
	Equal variances not assumed			1.059	162.084
ROE	Equal variances assumed	46.128	.000	3.537	1045
	Equal variances not assumed			1.458	150.114
ROA	Equal variances assumed	.249	.618	.310	1296
	Equal variances not assumed			.531	828.454

		t-test for Equality of Means		
		Sig. (2-tailed)	Mean Difference	Std. Error Difference
PM	Equal variances assumed	.108	2.32621559	1.44419750
	Equal variances not assumed	.291	2.32621559	2.19727500
ROE	Equal variances assumed	.000	19.49524962	5.51212192
	Equal variances not assumed	.147	19.49524962	13.37223199
ROA	Equal variances assumed	.757	.02574232	.08305028
	Equal variances not assumed	.596	.02574232	.04849115

Source: Author's illustration, SPSS. BIS Database, financial statements 2012-2018

Figure 6 consists of inferential statistics- the output from the test. Levene's test assumes that the samples have equal variances, or in other words that the groups have homogeneity. It tests whether the variances of two groups are approximately equal, or homogeneous. Unlike the t-test, in which we test whether the mean of one group is different than the mean of another after an experiment, where we expect (or want) those means to be different, in Levene, we want the variances to be the same for the test to be non-significant. The higher the obtained value of t, the smaller the probability that the results occurred by chance. The "df", representing degrees of freedom, shows the number of values s that are free to vary without violating the statistics. The data set is statistically significant when it is large enough to accurately represent the population or phenomenon that is studied.

By looking at the Levene's test, we can check the significance levels for all three parameters:  $Sig_{PM}=0.010$ ,  $Sig_{ROE}=0.0000$ ,  $Sig_{ROA}=.618$ . In this case, significance level of profit margins and returns on equity are lower than 0.05, so we can support hypotheses H1 and H2 – according to these parameters, there is statistical significance in the financial performance of hotel groups. For returns on assets, sigma is higher than 0.05 and our third hypothesis is not supported ( $Sig_{ROA}=0.618$ ).

The t-value is calculated by comparing the means to the null and incorporating the sample size and variability of data. For example, a t-value of 0 would indicate that the output results equal exactly the null hypothesis. As the difference between sample data results and the null hypothesis increases, the absolute t-value increases. The t value, when placed in the t-distribution, we can calculate the probabilities associated with that value. This would allow us to determine how rare or how common our t-value is under the assumption that the null is true. If the probability is low enough we can conclude that the effect observed is not supported by the null hypothesis meaning there is statistical significance.

The significance level tells us the likelihood that results have occurred by chance. If we wanted to test the null hypothesis that  $\beta = \beta_0$  against the alternative hypothesis that  $\beta \neq \beta_0$ , we would focus on the two-tailed test and reject the null whenever the absolute value of  $z$  is large. Instead, we are interested in testing the null that  $\beta \leq \beta_0$  against the alternative stating that  $\beta > \beta_0$ . In order to check this assumption, we look at the one-tailed test. However, to obtain one-tailed probability and for the hypothesis to be directional, we divide the  $p$ -value in half, where a small  $p$ -value indicates a difference in variances. According to this value, this figure confirms what has been proven in the one-tailed test above, with one-tailed significance levels being 0.054, 0.000 and 0.378. Given that the  $p$ -value in this case is again less than the chosen significance level for the first two parameters but higher than the third, this gives enough evidence that we can support only hypotheses H1 and H2.

**Figure 7.** Independent samples test, 95% confidence interval

		Independent Samples Test	
		t-test for Equality of Means	
		95% Confidence Interval of the Difference	
		Lower	Upper
PM	Equal variances assumed	-.50752060	5.15995178
	Equal variances not assumed	-2.01276111	6.66519229
ROE	Equal variances assumed	8.67916176	30.31133748
	Equal variances not assumed	-6.92685231	45.91735155
ROA	Equal variances assumed	-.13718540	.18867004
	Equal variances not assumed	-.06943765	.12092229

Source: Author's illustration, SPSS.

In simplest terms, figure 7 shows that we can be 95% confident that the means of the groups are in between the noted intervals. However, since this analysis was done using a 95% confidence interval, there is a 5% error. Half of this error goes in each tail of the bell curve. This means 2.5%, or 0.025 to each side.

## Conclusion

Hotels will always look for new ways to profit – their success depends on how well they can attract growth and keep the profits flowing. Profit margins

show how many cents of profit the business has generated for each dollar of sale, and the hotel industry tends to have the lowest profit margin of any industry. Most previous investments in tourism in Bosnia and Herzegovina were focused on the renovation of existing hotel facilities, with development of new offers and hotel projects. Bosnia and Herzegovina is a relatively competitive destination, but FDIs do not come in significant amounts due to problems such as high levels of corruption, indefinite laws, and frequent changes in regulations.

Due to insufficient sources of capital in the domestic market of the country, investors turn to international sources of funding. The lack of new capital represents a barrier to the development of hotel industry in the country, and it is necessary to find ways to attract more international tourists and capital in order to increase the country's competitiveness and achieve higher incomes. Taking the average, out of totally 48 hotels that are foreign direct investment, more than half ended fiscal periods with losses. The reason for negative profits of FDI hotels may be the fact that foreign capital has mainly entered into already existing hotels and that the bad condition of the hotels required much investment into raising their quality and profitability.

Return on equity, calculated by dividing net income by shareholders' equity, indicates the coverage of debt, and according to analysis one of the reasons for lower return on equity in foreign hotels is the fact that foreign direct investment requires more funds, and that raises the category of hotel debt, thus lowering returns in the short term. Return on assets (ROA), an indicator of how profitable a company is relative to its total assets, is another form of returns on investment. Even though foreign direct investment brings assets, technology, and managerial skills to the host country and business, the conclusion is that domestic investments are statistically better than foreign hotels when it comes to returns on assets. Profitability ratios are used as three basic parameters of analysis as they are a few of the most important indicators of financial performance of hotels.

Looking at the results they show that in Bosnia and Herzegovina hotels with domestic investment have higher profit margins, returns on equity and returns on assets, than hotels with foreign direct investment. The first hypothesis, stating that significant statistical difference exists in profit margins of domestic and foreign hotels, is supported.

The second hypothesis, assuming that significant statistical difference exists in return on equity of domestic and foreign hotels, is also supported. However, the third tested hypothesis that significant statistical difference exists in return on assets of domestic and foreign hotels, is not supported. Together, this suggests that difference in ways of finance (domestic vs foreign direct investment) does affect hotels' profitability but only according to profit margins and return on equity. By examining the impact of foreign

direct investment on performance of hotels, the null hypothesis, which assumes that *significant statistical difference exists in financial performance of domestic and foreign hotels*, is only partially confirmed. This is because, after having analyzed the annual business results of six domestic and foreign hotels, two out of three supporting hypotheses are confirmed. It means that we can confirm the assumption that profit margins and returns on equity for hotels in Bosnia and Herzegovina are to a certain level affected by FDI.

However, the variability in outputs for returns on assets is not statistically significant and the third supporting hypothesis is not supported. Foreign direct investment makes difference in profit margins and ROEs of hotels in Bosnia and Herzegovina and has (generally) no effect on hotels' average ROA. All of the above indicators are relevant for the assessment of financial performance of hotels, but specific indicators such as average achieved room price, RevPAR (revenue per available room) and hotel occupancy should be more assessed too to bring even more precise and accurate results. It is safe to conclude there is a certain relationship between foreign direct investment and the financial success of hotels in Bosnia and Herzegovina. However, each category of hotels has necessity to invest in raising its quality in order to attract more clients and to increase the profitability of the activity, whether domestic or foreign. Finally, the null hypothesis (H<sub>0</sub>), which states that significant statistical difference exists in financial performance of domestic and foreign hotels, is only partially supported.

Bosnia and Herzegovina is a country capable of increasing its hotel capacities, but in situations of insufficient capital sources in its domestic market, need for international finance is almost inevitable. In the analysis of profitability of investment in hotels, one must consider the overall offers, the hotel's location, competition in the market, and demand. The "value for money" rule has perhaps not been as affirmed in any other business as it has in hotel business.

Findings of this research could help researchers and investors in creating the starting point for solving some developmental issues in the hotel industry and in making strategic decisions about investments in hotel industry, as well as taking incentives to attract more foreign direct investments to hotel business. From these results, one may draw conclusions on whether and to what level attracting foreign investors to the hotel industry is important for the economy of Bosnia and Herzegovina. The empirical results may also be useful for a more in-depth analysis using financial indicators specific to the hotel industry, i.e. occupancy, average daily rate, or revenue per available room.



Since this research was focused mainly on positive development outcomes from FDI, there is less understanding of potentially negative effects, i.e. how foreign direct investment increases competition between local firms and foreign investment or whether foreign firms use financial advantages to remove competition and gain monopoly in their host markets. Using this total population sample, future research explaining the effect of profitability on foreign direct investment would increase our overall understanding of the relationship between the variables.

## References

Aguiar, M. & Gopinath, G. (2005). Fire-Sale Foreign Direct Investment and Liquidity Crises. *Review of Economics and Statistics*, 87(3), 439-452.

Bačić, K., Račić, D. & Ahec-Šonje, A. (2004). The effects of FDI on recipient countries in Central and Eastern Europe, *Privredna kretanja i ekonomska politika*, 14(100), 58-96

CBBH - Direktna strana ulaganja u BiH. (2016). Retrieved 9 May 2019, from <https://www.cbbh.ba/press/ShowNews/777?title=Direktna-strana-ulaganja-u-BiH&lang=bs>

CPI foundation. (2019). Retrieved 12 May 2019, from <https://www.cpi.ba>

Dimitrić, M., Tomas Žiković, I. & Matejčić, V. (2018) ODREDNICE PROFITABILNOSTI HOTELSKIH PODUZEĆA – USPOREDNA ANALIZA PRIMORSKO-GORANSKE ŽUPANIJE I REPUBLIKE HRVATSKE. U: Koški, D., Karačić, D. & Sajter, D. (ur.) *Financije - teorija i suvremena pitanja*. Osijek, Ekonomsku fakultet u Osijeku, pp. 329-350

Foreign Investment Promotion Agency of Bosnia and Herzegovina. (2019). Retrieved 12 May 2019, from [http://www.fipa.gov.ba/o\\_fipa/JAVNE\\_NABAVKE/?id=10089](http://www.fipa.gov.ba/o_fipa/JAVNE_NABAVKE/?id=10089)

IMF (2019). Retrieved 9 August 2019, page 84 from <https://www.imf.org/external/pubs/ft/ar/archive/pdf/ar1993>.

Kindleberger, C. (2002). Stephen Hymer and the Multinational Corporation. *Contributions To Political Economy*, 21(1), 5-7

Krugman, P. (2000). Fire-Sale FDI. In E. Sebastian Edwards (Ed.), *Capital Flows and the Emerging Economies: Theory, Evidence, and Controversies* pp. 43–60, *University of Chicago*

MacDougall, G. (1960). THE BENEFITS and COSTS OF PRIVATE INVESTMENT FROM ABROAD: A THEORETICAL APPROACH. *Economic Record*, 36(73), 13-35.



OECD, Policies and International Integration. (2003). Retrieved 13 July 2019, from [https://www.oecd-ilibrary.org/economics/policies-and-international-integration\\_062321126487](https://www.oecd-ilibrary.org/economics/policies-and-international-integration_062321126487)

OECD, Benchmark Definition of Foreign Direct Investment - 4th Edition - OECD. (2008). Retrieved 27 June 2019, from <https://www.oecd.org/investment/fdibenchmarkdefinition>.

Piggott, J. (2006). *International business economics* (pp. 333-349). Basingstoke [u.a.]: Palgrave Macmillan

Salvatore, D. (1991). Graham, E. H. & Krugman, P. R.: Foreign Direct Investment in the United States. Washington, D.C.: Institute for International Economics 1989. xiii. *Kyklos*, 44(3), 476-478.

Sancho A., Bernardí P. & Borrása C., (2004). Innovation and profitability in the hotel industry: specialization and concentration effects. *Semantic Scholar* 55(4), 63-99

Škuflić, L. & Mlinarić, D. (2015) .Mikroekonomske determinante profitabilnosti hrvatske hotelske industrije, *Ekonomski pregled*, 66(5), 477-494.

Tron.ba (2018). Retrieved 18 September 2019, from <http://tron.ba/>

WTO - Rules for Foreign Direct Investment | World Trade Organization | American Express. (2016). Retrieved 9 September 2019, from <https://www.americanexpress.com/us/foreign-exchange/articles/clearer-rules-for-foreign-direct-investment/>