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## PPP IN CROATIAN TOURISM: CHANCE FOR CROATIAN FAMILY HOTELS

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**Abstract:** In the last fifty years world tourism and hospitality industry experienced a phenomenal growth of international tourist arrivals, overnights and receipts. It is widely recognized that the tourism became one of the most dominating socio-economic activities at the beginning of the 21<sup>st</sup> Century. The example of Croatia speaks in favour of that statement. Tourism is the most prosperous industry and the essential development factor in Croatia. The great share of tourism results refers to family business that is of high importance to development strategy of Croatian tourism. Family business in Croatian tourism is based on households and family hotels. Family hotels are recognized on the tourism market by its original and identifiable service imbued with indigenous values and cultural heritage, diversity and individuality. Moreover, they are the most sound and prosperous segment of Croatian tourism and their top-level quality and high professionalism are basic elements of tourism development. Croatian strategic tourism development documents highlight the participation of private sector in tourism development. One of the possible ways of such participation is through public-private partnership (PPP). There are many examples of public-private partnerships in tourism around the world. According to world experiences, marketing and promotions and product development are the main areas where public-private partnership has developed. Despite the fact that tourism is very important economy generator, Croatian experiences with integral implementation of public-private partnerships in tourism are only at the beginning. The aim of this paper is to examine how Croatian family hotels could take a part in establishing public-private partnerships in tourism. Considering the world best practices on public-private partnership in tourism investment, the paper also suggests two acceptable partnership models. The first is related to existing tourism clusters while the second is more innovative and is related to the development of a new tourist complex. Proposed public-private partnership model for the new tourist complex development includes government (on local or/and national level) as public sector representative and family hotels as private sector representative. The paper also examines necessary prerequisite conditions for establishing such a partnership offering a win-win solution for all project stakeholders.

*Key words:* public-private partnership (PPP), tourism, family hotels.

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## INTRODUCTION

In the last fifty years world tourism and hospitality industry experienced a phenomenal growth of international tourist arrivals, overnights and receipts. It is widely recognized that the tourism is making a significant contribution to the socio-economic development of many countries.

The example of Croatia speaks in favour of that statement. Tourism is the most prosperous industry and the essential development factor in Croatia that both directly and indirectly accounts for approximately 22,4 per cent of total GDP and 27,4 per cent of total employment. The great share of those results refers to family business that is of high importance to development strategy of Croatian tourism. Family business in Croatian tourism is based on households and family hotels. Family hotels are recognized on the international tourism market by their high professionalism and original and top-level service imbued with indigenous values and cultural heritage, diversity and individuality. Considering their current results and future potential, they represent the most prosperous segment of Croatian tourism.

In the last two decades, public-private partnership (PPP) became a world trend resulting in numerous projects in power-supply, transportation, telecommunications, public utilities but also tourism. In addition, public-private partnerships in tourism are well accepted around the world by both developed and developing countries and can be established at all levels of tourism and can include both tourism and non-tourism sectors.

The participation of private sector and especially family hotels in Croatian tourism is highly recommended. Public-private partnerships could be one of the possible ways of such participation.

## TOURISM – THE GENERATOR OF CROATIAN ECONOMY

Tourism in Croatia is the most prosperous industry and is of great importance for both the government and the private sector. The tourism industry involves a wide range of players from both the public and private sectors and they can significantly contribute to enhance the excellence of the Croatia in general. The degree of importance of tourism could be analysed by some statistical data (Table 1). Over the last several years Croatian tourism registered constant raise in total number of tourist arrivals and overnights. In 2005 there were registered almost 10 million tourist arrivals and 51,4 million tourist overnights with more than 80 per cent international.

**Table 1:** Croatian Tourism Statistical Data for Selected Years

| Year                                   |                | 1996.  | 1998.  | 2000.  | 2002.  | 2004.  | 2005.  |
|--|----------------|--------|--------|--------|--------|--------|--------|
| Tourist arrivals                       | Total (in 000) | 3.899  | 5.449  | 7.137  | 8.320  | 9.412  | 9.995  |
|  | % of internat. | 67,9   | 75,4   | 81,7   | 83,4   | 84,0   | 84,7   |
| Tourist overnights                     | Total (in 000) | 21.455 | 31.287 | 39.183 | 44.692 | 47.797 | 51.420 |
|  | % of internat. | 77,1   | 83,1   | 88,4   | 88,8   | 88,9   | 89,4   |
| Beds                                   | Total          | 645    | 725    | 759    | 804    | -      | -      |
|  | % of main      | 31,1   | 27,6   | -      | -      | -      | -      |
| Average length of tourist stay/in days |                | 5,5    | 5,7    | 5,8    | 5,7    | 5,4    | 5,1    |

Source: Croatian Bureau of Statistics (2000); Ministry of the Sea, Tourism, Transport and Development

Total tourist demand in 2003 is estimated at almost 8 billion USD. Foreign tourist expenditure is estimated at around 4,6 billion USD what makes around 40 per cent of total Croatian export.

The importance of tourism for Croatian economy could also be examined by the shares that tourism has in total GDP and total employment. World Travel & Tourism Council (WTTC) claims that tourism in 2003 directly accounts for approximately 2.5 billion USD or 10,6 per cent of total Croatian GDP and 139 thousand jobs or 13 per cent of total employment in Croatia (Table 2). Both directly and indirectly, tourism contribute with 5,4 billion USD or 22,4 per cent of total GDP and 294 thousand or 27,4 per cent of total employment in Croatia. As shown in Table 2, tourism in Croatia contribute to GDP and employment more then EU and world average.

**Table 2:** Travel&Tourist Satellite Account – the Contribution of Tourism to Economy

| Contribution/Year                         |              | 2001. | 2002. | 2003. | 2013. (estim.) |
|---|--------------|-------|-------|-------|----------------|
| <b>1.Direct Contribution</b>              |              |       |       |       |                |
| Croatia                                   | - GDP        | 12,7% | 12,3% | 13,0% | 15,9%          |
|   | - Employment | 9,8%  | 9,8%  | 10,6% | 14,8%          |
| EU  | - GDP        | -     | -     | 4,2%  | 4,4%           |
|   | - Employment | -     | -     | 4,5%  | 4,8%           |
| World                                     | - GDP        | -     | -     | 3,7%  | 3,8%           |
|   | - Employment | -     | -     | 2,6%  | 2,9%           |
| <b>2.Direct and Indirect Contribution</b> |              |       |       |       |                |
| Croatia                                   | - GDP        | 27,3% | 26,2% | 27,4% | 33,9%          |
|   | - Employment | 20,8% | 20,8% | 22,4% | 31,6%          |
| EU  | - GDP        | -     | -     | 11,5% | 12,5%          |
|   | - Employment | -     | -     | 12,5% | 13,6%          |
| World                                     | - GDP        | -     | -     | 10,2% | 10,8%          |
|   | - Employment | -     | -     | 7,5%  | 8,4%           |

Source: WTTC, 2003

Despite those considerable results, Croatian tourism is also characterised by some negative aspects:

- inadequate accommodation structure in destination – hotels account for 12,2 per cent, camps 25,3 per cent and households 48,8 per cent of total number of beds,
- short length of stay in destination – in 2005 only 5,1 day on average,
- pronounced seasonality – around 86 per cent of total overnights are made during the four summer months,
- low average utilization level of accommodation capacities,
- shortage of moorings in marinas, especially moorings for yachts more than 20 meters in length,
- natural resources and accommodation make the base of tourist offer,
- traffic infrastructure in destination does not satisfy,
- tourists are the most dissatisfied with those elements that make quality of tourism supply, or in other words with the level of organization in destination and with the substance of tourism offer – attractions, services and other activities.

### **FAMILY HOTELS AS A REPRESENTATIVE OF SMALL BUSINESS IN CROATIAN TOURISM**

Similar to other EU countries, small business is highly important segment of Croatian economy which includes more than 99 per cent of total number of business subjects, accounts for more than 65 per cent of total employment and makes approximately 55 per cent of total GDP. In comparison, in former EU-15 small business includes more than 99,8 per cent of total number of business subjects, accounts for more than 66,4 per cent of total employment and makes approximately 63 per cent of total GDP. Countries that join the EU later also have very similar data.

Although there are no relevant statistical data for tourism industry, it could be undoubtedly concluded that great share of total tourist results on national level refers to small business. Family entrepreneurship and/or family business are relevant representatives of small business in tourist industry and they are of high importance to development strategy of Croatian tourism.

Family business in Croatian tourism industry is based on households and family hotels. Although households account for more than 45% of total accommodation capacities in Croatia they are not the subject of interest of this paper. Qualitatively only few could satisfy present tourist demand. For those capacities that are not in congruence with present and future tourist trends there are only two solutions – adjustment/modernization or closure.

Family hotels in Croatia arise on the basis of households tradition. There are approximately 200 family hotels that account for only 7 per cent of total accommodation capacities. Their average value is around 1,5-2 million EUR, they have approximately 15 employees and at most 50 rooms or 25 apartments (Stipanovic, 2006; Dukovac, 2006). The majority is situated in seaside destinations but they are also very popular in continental destinations.

For comparison, Italy has 23 thousand small and family hotels, Greece and Austria 10 thousand each. Small and family hotels in that countries account for 70 per cent of total hotel accommodation. Moreover, the Croatian family hotels have occupancy rates that are 40 per cent worse than European and prices that are 40 per cent lower than European (Dukovac, 2006). Those data reveal great growth potential Croatian family hotels have.

Small and family hotels in Croatia are allied in Association of Family and Small Hotels of Croatia that is very active in representing the interests of its members. The Association opened info-call centre in 2005 with purpose to give financial, marketing and other information to anyone interested in joining the business. It has also significant influence in tourism planning at national level and is very considerable partner to Croatian Ministry of the Sea, Tourism, Transport and Development and other tourism organizations.

Some of the major problems for family hotels emerging from doing business include insufficient financial potential/power, inferior access to financial assets (banks and other financial institutions), shortage of adequate market information, inferior negotiating power in relation to suppliers and tourist agents etc.

Despite the few problems, there are much more positive aspects of family hotels such as:

- family atmosphere and hospitability,
- innovative and flexible but highly professional and top-level services,
- each hotel represents specific micro location and offer unique tourist experience,
- original and identifiable service imbued with indigenous values and cultural heritage, diversity and individuality,
- entrepreneurship and management functions are integrated,
- simple organizational structure with high independence of management and employees,
- high motivation of employees and team work.

It could be concluded that family hotels are the most sound and prosperous segment of Croatian tourism and their top-level quality and high professionalism are basic elements of tourism development. Croatian Government recognized a huge potential that family hotels have and launched a special credit line and support program *Initiative for Success* in 2002. Under the program 164 small and family hotels were built and started business. In next three years it is planned that 300 more small and family hotels projects will be realised while in next 5-7 years it is expected that Croatia have 1.000 new small and family hotels with 70.000 new beds (Dukovac, 2006).

Some positive examples of family hotels in Croatia are hotel *Vicko* in Starigrad, *Villa Laetan* in Peroj, *Valsabbion* in Pula, *Manora* in Nerezine, *Sv.Mihovil* in Trlje, *Villa Neretva* in Opuzen etc.

### **PUBLIC-PRIVATE PARTNERSHIPS – WORLD EXPERIENCES**

Public-private partnerships (PPPs) are essentially partnerships between public sector organizations and private sector investors and business for the purpose of designing, planning, financing, constructing, providing and/or operating infrastructure, facilities or related services (Kim, Kim and Lee, 2005). The key motivator to partner is that all partners, whether from the private or the public sector will benefit from the partnership.

For the public sector, a partnership with private sector can bring access to new sources of capital, private sector innovation, accelerated development of infrastructure assets, better asset utilization, maintenance or improvement of service levels, risks and responsibilities sharing, access to skills, better value for money. Public-private partnership offers more business opportunities to the private sector.

Public and private sector working together could achieve a synergic effect. In order to establish any successful partnership, it's necessary to recognize partnership as a business relation wherein partners share the risks, rewards and responsibility for the success or failure of the initiative. The basis of a partnership lies in the partners sharing both risk and return (CTO, WTO, WTOBC, 2004).

In the last fifteen years, public-private partnership became a world trend resulting in numerous projects in power-supply, transportation, telecommunications, public utilities, sport facilities, education facilities including student accommodation facilities, hospitals, government office buildings etc.

Some more common forms of public-private partnership include Operations & Maintenance, Design-Build (DB), Turnkey Operation, Wrap Around Addition, Lease-Purchase, Temporary Privatization, Lease-Develop-Operate (LDO) or Buy-Develop-Operate (BDO), Built-Transfer-Operate (BTO), Build-Own-Operate-Transfer (BOOT) etc. (GAO, 1999; Juricic and Veljkovic, 2001; Kim, Kim and Lee, 2005).

When public-private partnerships are used in the appropriate context, government can realize important benefits, and contrary, without examining their suitability to specific circumstances some risks may appear.

Potential benefits and risks include (Kim, Kim and Lee, 2005):

**Potential benefits:**

- Cost savings,
- Risk Mitigation or Risk Sharing,
- Improved service levels or maintaining existing levels of services,
- Enhancement of revenues,
- More efficient implementation,
- Other economic benefits (increased employment and economic growth, "export" of expertise etc.).

**Potential risks:**

- Loss of control by government,
- Increased user fees,
- Political risks and labour issues,
- Accountability issues,
- Unreliable service,
- Lack of competition,
- Reduced quality or efficiency of service,
- Bias in the selection process.

### **Public-private partnerships in tourism**

Concerning tourism, in the early years of tourism development, governments have played pioneering role in providing the basic infrastructure and facilities necessary to open up areas of the country to tourism and to attract growth. Also, the governments have traditionally played a key role in the promotion of their countries as tourist destinations. However, the growth of tourism enhanced its potential commercial value and private sector became more and more interested in the business opportunities it offered (WTOBC, 2000).

At the same time the government started to disengage from tourism in favour of the private sector and see their role more as that of facilitator, or stimulator of private sector investment. Traditional government role is still important in developing and transition countries, especially in the case of tourism development due to overall and particular effects that tourism has on development.

Increased interest of private sector led to opposite extreme - until recently, the travel and tourism industry has been hesitant in establishing public-private partnerships, because of the very competitive market within which it operates. However, public-private partnerships can do quite the opposite and there is a growing awareness of the benefits of partnerships in present times.

According to world experiences, marketing and promotions are the main area in which public-private partnership has developed. Product development, human resources - education and training, technology and operations, advocacy, safety and security, financing and investments are some other areas in which partnerships could have significant contribution to tourism growth and an increasingly competitive industry (WTOBC, 2000; Kim, Kim and Lee, 2005).

Partnerships in fact form for a variety of reasons. Some typical partnership objectives include (CTO, WTO, WTOBC, 2004):

#### **Products**

- Enhance and preserve resources
- Set quality standards
- Develop attractions, theme parks & accomm.
- Provide technical support for innovative product development programs
- Contribute to the economic wealth of the community
- Create sustainable development of tourism sector
- Overcome trade and investment barriers
- Protect consumers
- Deal with competition

#### **Research and Technology**

- Provide research and measurement methodologies
- Implement Tourism Satellite Accounts
- Enhance technological innovation and application

#### **Human Resources**

- Set service and quality standards
- Provide training and education programs
- Improve productivity and innovation

#### **Marketing and Sales**

- Improve destination image
- Improve marketing efficiency
- Improve market coverage and reach
- Provide support for electronic marketing and distribution, including Internet
- Provide support for participation at trade shows
- Harness power of co-op marketing programs
- Access new markets

#### **Infrastructure**

- Improve roads, transport infrastructure& basic services
- Provide impetus for intermodal transport
- Improve public health and sanitation
- Improve safety and security
- Enhance telecommunications system

#### **Financing**

- Obtain investment and funding
- Leverage public investment
- Obtain start-up financing
- Improve yield

In addition, public-private partnerships in tourism are well accepted around the world by both developed and developing countries and can be established at all levels of tourism (local, provincial, national, even international). The opportunity to partner is not just with organizations that are traditionally viewed as being within tourism sector and partnerships can include both tourism and non-tourism sectors.

In the context of this paper, selected ‘best practice’ case studies could illustrate the variety of partnerships and give guidance on how to build, implement and further develop partnerships (Table 3 and Table 4).

**Table 3:** Selected Case Studies around the World - Europe, Caribbean and Latin America and Africa

| Regions                            | Case Studies   | Partners   | Areas of cooperation   |
|------------------------------------|--|--|--|
| <b>Europe</b>                      | Revitalizing a core tourism asset: Hungary’s Spa and Wellness Industry                           | Prime Minister’s Office<br>Hungarian Tourist Offices<br>Other Ministries<br>Private Sector<br>Parliament Tourism Committee<br>Municipalities   | Product development, infrastructure, financing, human resources      |
|                                    | Creating a tourist cluster: the Armada Hotel, Istanbul   | Armada Hotel<br>Sabahattin The Fisherman Restaurant<br>Sehir Restaurant<br>Alafranga Restaurant<br>Turkish Government  | Product development, financing                                       |
| <b>Caribbean and Latin America</b> | Creating a comprehensive development program: Small Tourism Enterprise Project (STEP), Caribbean | Organization of American States (OAS)<br>United States Agency for International Development (USAID)<br>Partners on specific projects: CAST, IFC, CHA, private sector working groups  | Product development, marketing & sales, financing, human resources   |
| <b>Africa</b>                      | Integrated Tourism Development Programme for Ghana   | Ministry of Tourism<br>Related ministries, departments and agencies<br>Ghana Tourist Board<br>World Tourist Organization (WTO)<br>United Nations Development Programme (UNDP)<br>Ghana Tourism Federation (including hotel, restaurant, car rental associations) | Research & planning, product development, infrastructure development |

**Table 4:** Selected Case Studies around the World – Middle East, Americas and Asia

|                    |  |   |  |
|--------------------|--|---|--|
| <b>Middle East</b> | Creating a destination: the Red Sea Riviera, Egypt                                 | Tourism Development Authority (TDA)<br>Banks, International and Domestic<br>Local Authorities<br>Environment Ministry<br>Private-Sector Investments   | Product development, infrastructure, financing |
| <b>Americas</b>    | Bridging the gap between non-traditional partners: Canadian Sport Tourism Alliance | Canadian Sport Tourism Alliance (CSTA)<br>Canadian Tourism Commission (CTC)<br>Sport Canada<br>Approximately 50 municipalities across Canada<br>Sport event rights holders<br>Sport tourism service providers | Product development, research & technology     |
| <b>Asia</b>        | Development of Jungmun Tourist Complex, Republic of Korea                          | Government of the Republic of Korea<br>Jeju Provincial Government<br>Korea National Tourism Organization (KNTO)<br>Individual private companies/investors   | Financing & investment, product innovation     |

Source: WTOBC, 2000; CTO, WTO, WTOBC, 2004



There are more other examples of public-private partnerships like the *Cruise tourism policy* of Grenada in the Caribbean (WTOBC, 2000). It is a very important example of public-private partnership in the area of *tourism master plan development*. The result of a joint effort of all partners (Ministry of Tourism, Grenada Board of Tourism and shipping agents, tour operators and taxi associations) was a policy which is going to serve as a guide. In this manner, it was expected to improve service and facilities offered to cruise passengers, to enhance visitor satisfaction and generate increased business.

One of the most impressive formulas of tourism promotion and marketing operate under the name *Maison de la France*. It is a determined, commercially minded combination of public sector and private sector funds and interests. This partnership involves the central government, the different provincial and local authorities, the tourism professionals and linked sectors of the economy such as automobile manufacturing, department store chains, high fashion goods and French perfumes (Owen, 1992; WTOBC, 2004).

### **IMPLEMENTATION OF PUBLIC-PRIVATE PARTNERSHIPS IN CROATIAN TOURISM**

Despite the fact that tourism is very important economy generator, there are no real experiences about integral implementation of public-private partnership models in Croatian tourism. Various types of partnership are just in early phases of application.

A public-private partnership with the longest existence is the Croatian Tourist Organization (CTO). This organization operates in marketing and promotion area at national level. In the cooperation with tourism industry and professionals, it is in charge of promoting Croatian tourism all over the world (Peric and Dragicevic, 2005).

Istria Master Plan (THR and Horwath Consulting Zagreb, 2003) and Master Plan of Tourism for Kvarner Destination (Peric et al., 2005) are two partnerships in area of tourism planning. The later is established between three strategic partners - Government of Primorsko-goranska County and University of Rijeka as representatives of public sector and the Tourism organization of Primorsko-goranska County as representative of tourism industry. This is for the first time in Croatia that one scientific and educational public institution is a partner in planning of tourism development.

Strategic importance of the Master plan is *restructuring and repositioning development model for Kvarner destination* that is based on principles of Integrated Quality Management – IQM (European Commission, 2000). It should simultaneously take into account and have favourable impact on the activities of tourism professionals, tourists, the local population and the environment. Moreover, the implementation of the Master plan will give the opportunity for creation more partnerships on lower levels. Such new partnerships are expected between micro destinations and local tourism industry. In that sense, the key element of the Master plan is a review of various development projects that need to be realised in the next ten years.

There is one more important aspect of public-private partnership in tourism. Development of the infrastructure becomes crucial if Croatian economy is to rely on

tourism as a main generator. In this sense, motor roads, energetic and other public infrastructure are essential tourist facilities. Some type of cooperation exists in this area and some important projects are initiated or finished such as motor roads Zagreb-Rijeka and Zagreb-Split, water-supply projects for islands etc. (Peric and Dragicevic, 2005).

### **New public-private partnerships in tourism include family hotels**

The participation of private sector and especially family hotels in Croatian tourism is highly recommended. Public-private partnerships could be one of the possible ways of such participation and it is of great importance to include family hotels in future partnerships. Family hotels participation depends on whether the tourist destination already exists or not. In general, it is possible to identify:

- A. Public-private partnership model in existing tourism clusters, and
- B. Public-private partnership model in new destination development.

### ***Public-private partnership model in existing tourism clusters***

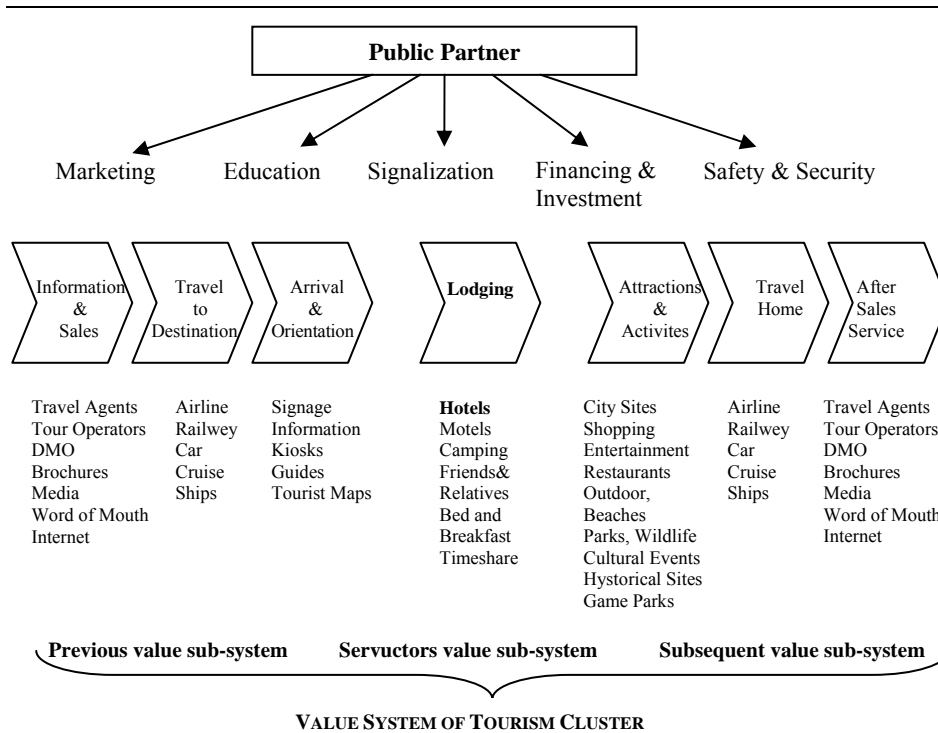
A tourism cluster is a geographical space in which the entire tourism experience takes place. Clusters are a group of tourism resources and attractions, infrastructure, equipment, service providers, other supporting sectors and administrative bodies whose integrated and co-ordinated activities contribute to providing costumers with the experiences they expect from the destination they choose to visit (WTOBC, 2004).

Family hotels entering the existing cluster need to establish their own activities that create the value or their value chain. The value chain in tourism sector begins and ends outside the destination, where the idea to travel is first presented and converted into the decision to travel. Despite the fact that it seems that the family hotels have to concentrate only to the centre of the value chain – lodging, they could be competitive only if establish their whole value chain.

The value chain of every company or service provider in a cluster is part of a bigger chain of activities that we call *value system of the cluster*, and it includes the value chains of hundred of suppliers and distributors and the clients (Figure 1).

Each part of the value system can be supported by public sector, usually local authorities. Family hotels as a part of that value system need to partner with public sector too. All well-known types of partnership could be used. The main support of public sector is usually oriented at promotion, financing and investment, safety and security, signalization and educational area.

**Figure 1:** Value System of Tourism Cluster



***Public-private partnership model in new destination development***

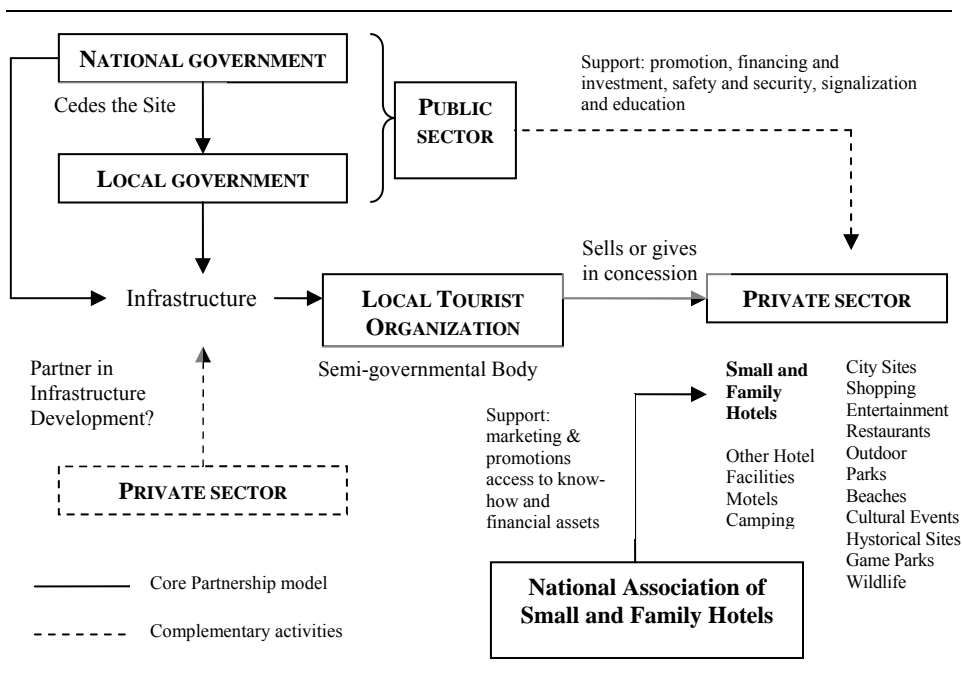
For Croatian tourism circumstances, family hotels participation in new tourist complex development is more innovative solution. Although there is no universal model to replicate, some world best practices on public-private partnership in tourism investment can be very useful as guidance. Lessons learned could be transferable beyond the Croatian cultural and economic context.

There are several adequate sites for development of tourist complexes in Croatia. Some of them are in the ownership of the national government. If recognized for revitalizing the local economy by creating jobs as well as increasing the level of income, the national government can cede the site to local authorities or local government. Local government then partner with private sector in developing the tourist complex (Figure 2).

It is proposed for government to provide the infrastructure such as roads, bridges, communication system, water supply and sewage, etc. Local tourist organization or some other semi-governmental body takes charge of purchasing and preparing the site for the complex. Then, the site is sold in lots or given in concession to private companies to build tourist facilities and manage them. Family hotels are supposed to have significant share in those private companies. Moreover, if the

complex will be planned in that way, some sites could be sold to small and family hotels as exclusive representatives of accommodation facilities.

**Figure 2:** Public-Private Partnership Model in Tourist Complex ‘XY’ Development



Some general necessary prerequisite conditions for establishing such a partnership in practice are as follow (Kim, Kim and Lee, 2005):

- Research is key
- Quality staff are key
- Education and training
- Keeping a tight focus
- Giving partners enough time and opportunities to get to know and trust each other
- Ensuring good and transparent communication
- Replacing competition with cooperation for achievement and strong bargaining position.

Some specific conditions for family hotels in Croatia such as insufficient financial power, inferior access to financial assets and inferior negotiating power are main factors that could prevent its participation in similar projects. For that reason, it is desirable that all family hotels and those who want to enter the business join the Association of Family and Small Hotels of Croatia. In such a way, the acces to *know-how* and financial resources can be facilitated. The Association also opened info-call centre,

makes significant efforts in marketing and promotions area and facilitates bargaining with other suppliers and potential tourist markets in order to create truly competitive cluster.

The whole public-private partnership model gives the opportunities in establishing even more partnerships. For example, the development of infrastructure can offer new possibilities for public and private sector to partner. Also, the role of public sector is not only to build or to partner in the building of the infrastructure, but also to support private initiatives in various aspects: financial facilitation, safety and security, education and training, etc. Once again *Initiative for Success* has to be mentioned but also educational seminars *Family and Small Hotels*.

The Association of Family and Small Hotels of Croatia, Erste&Steiermärkische Bank and the Ministry of the Sea, Tourism, Transport and development organized the seminars which were free of cost to all interested parties. The aim of the seminars was to inform present and potential entrepreneurs about planning, realization and managing the small and family hotels. The main seminars' themes were: starting the business, spatial planning, location analysis, hotel market, defining the optimal hotel product, elaboration of marketing plan, preparation of investment plans and financial analysis for small hotels.

Finally, there is no need to remind that establishing adequate individual value chains will lead to an adequate value system in the new tourist complex. Only if those general and specific preconditions are obtained, it could be possible for the partnership to offer a win-win solution for all project stakeholders.

## CONCLUSION

Tourism is very important generator for Croatian economy, qualitative and quantitative growth. Family hotels are the most sound and prosperous segment of Croatian tourism and the Government wants to increase their share in tourism. One of the possible ways in that purpose is family hotels participation in public-private partnerships in tourism.

World experiences indicate that public-private partnership in tourism is already spread all over the world and is still growing. Each partnership case is unique and there is no correct formula to follow in establishing public-private partnership into practice.

Lessons learned could be transferable beyond the specific cultural and economic context. The formation of partnerships depends on local circumstances, economic, organizational, cultural, and structural capability of the private sector or the public sector to participate, and the willingness of the potential partners to assume the additional responsibility that the partnerships entails.

The model of family hotels participation in public-private partnerships depends on whether the tourist destination already exists or not. Public-private partnership model in existing tourism clusters is all about family hotels entering the existing cluster and establishing their own value chain. Public sector support is oriented to all parts of value chain through promotion, financing and investment, safety and security, signalization and educational activities.

New tourist complex 'XY' is a development project that is a model of collaboration between the government and private sector. In Croatia, that model includes both national and local government, local tourist organization or some other semi-governmental body and private sector. It is proposed for government to provide the basic infrastructure while local tourist organization takes charge of purchasing and preparing the site for selling in lots or giving in concession to private companies (including family hotels!) which will build tourist facilities and manage them.

Adequate planning and research, quality staff, education and training (seminars), mutual trust and cooperation, transparent communication and tight focus are some prerequisite conditions for establishing such a partnership. The support of Association of Family and Small Hotels of Croatia is of great importance for family hotels in accessing to *know-how* and financial resources.

Only if joined in partnership, national and local authorities and private sector could be successful in facing the challenges of the tourism industry and in managing the new tourist complex in a sustainable way.

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