

Directing changes with the aim of improving Croatian hotel management companies¹

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Abstract

When it comes to the re-conception of contemporary Croatian hotel management companies, the new business culture should be based on dynamic forces, change, transformation, perfection and qualitative innovation. The priority is to raise awareness about the importance of change, to encourage change, to actively proceed towards the future and to use one's ingenuity to cross barriers. Changes are taking place right now, and will also take place in the future. Important tools in competition are inventions based on intellectual capital. Being competitive implies understanding one's customers and anticipating their desires and needs (it does not suffice to adapt to contemporary taste, but a new offer and proactive marketing should be ahead of the curve). This paper defines tourism trends in the 21st century and assesses the competitiveness of Croatian tourism. Research in this particular case represents an innovation of offer in Croatian hotel and tourism management companies as a qualitative response to a globalized offer of foreign brands.

Key words: change, innovation, intellectual capital, Croatian hotel management companies, reengineering

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1 Introduction

The global 21st century tourism market is becoming more dynamic. New challenges and criteria of excellence lie ahead of tourism offer providers. Only those hotel and tourism companies which actively participate in designing their future by introducing change and innovation can develop and adequately participate in the competitive game. The key issue in this paper is how to introduce innovation into Croatian tourism and hospitality management companies. Or to be more precise, how to use existing resources (limited intellectual and financial capital) and an inherited, out-dated system of values to transform extraordinary natural resources into a competitive tourism product (i.e. innovation in the 21st century tourism; what are the features of the tourism product in Croatia and Croatian hospitality management companies of the future?). This product should be based upon permanent changes so as to multiply profit. The new offer should be based on intellectual capital and information so as to be able to anticipate change and re-conceptualize the development. The future belongs to leaders who are able to anticipate possibilities before they become apparent, and thus realize competitive advantages based on innovation (rapid response).

2 Challenges of the globalized 21st century tourism market

Tourism is developing rapidly. It is expanding and transforming into an entertainment industry, an industry of sports, active vacations, events, etc. Factors which introduce dynamic change into the 21st century tourism are:

- changes and development of tourist needs, tastes, desires, motives;
- mobility and high level of consciousness and information available to tourists;
- activity and the reactions of competitors in designing new guidelines of offer;
- innovation and the capability of management in tourism, where boundaries in content design are disappearing;

- imagination in generating a tourism product;
- the impact of globalization and multinational companies on tourism development.

Characteristics of 21st century tourism and economy are: the liberalization of markets and the increase in competition, connection, networking, clustering, integration, dynamics and complexity growth, the multiplication of the amount of information ... 21st century tourism experiences enormous changes in all business segments in the globalized surrounding. Imagination and a tendency towards the new, different and unknown will establish new criteria of tourism demand and offer. The offer must be adapted to tourists' tastes. Moreover, one should be able to anticipate the needs of tourists.

Qualitative changes in modern tourism are (Stipanović, 2009):

- more frequent vacations (four vacations per year on average) related to a general decrease in the average duration of vacation (four nights per vacation on average);
- present-day tourists are experienced in organizing their own vacations and are becoming more independent;
- less money is available for travel due to global recession;
- there are more operators in the sector and on the vertical and horizontal level;
- simultaneous existence of different types of offer designed for the same markets;
- increased competition.

Vacations shall become fragmented in the future. People will travel more often but the duration of each particular vacation to various destinations shall be shortened. In the transformation process of Croatian tourism, there is a need for distancing and transition from the classical technical conception of the destination from the aspect of its contents and capacities towards the notion of a destination as an integral identity and portfolio of events of the observed location or space. New market groups will come to exist; travelling motives will change and the concept of tourism will be reconceived. Each new arrival of tourists will need

to be presented with new contents and events. Better service will be required as well. In times of recession, when tourists find it more difficult to travel, the excellence ratio of money paid to services received will be of the utmost importance. New trends which are present in hotel management are the differentiation (wellness, all-inclusive hotels, hotels for singles, golf hotels, tennis hotels, hotels for children, naturist hotels ...), while traditional types of hotels tend to disappear from the market. Furthermore, the offer must be adapted to each individual tourist (Segmentation 101) which may still be difficult to envisage. Tourism is becoming more focused on the individual. Quantity is replaced by quality, mass tourism by individual and a more differentiated type of tourism. The experience which tourists gather on their vacations becomes more important than the act of visiting a place itself. Croatian tourism and hotel management do not easily adapt to nor accept contemporary trends in tourism.

3 Analysis of competitiveness of Croatian hotel business

The quality of Croatian tourism offer has, in many elements, neither reached the value of natural and historical heritage nor spatial developmental opportunities despite all the existing developmental achievements. This means that Croatian tourism potentials have not been fully utilized. Quantitative indicators adapted to mass tourism are emphasised (e.g. in times of recession Croatian tourism records an increase in the number of tourists by 3 per cent and an increase in the number of nights by 5 per cent during the first seven months of 2010). However, financial indicators (realised income, profit, average consumption per tourist) are not shown. They demonstrate how limited the offer is and that it is restricted to the season only, which is also entirely based on natural resources. From the out-dated concept of mass tourism, destinations of elite tourism arise (Dubrovnik, Hvar). The success of these destinations is based upon successful entrepreneurship. They clearly show in which direction Croatian tourism should be developing.

There are a great number of complementary types of accommodation which makes the Croatian offer inadequate and uncompetitive (camps - 23%, private accommodation - 41%), the hotel accommodation structure is of poor quality (14% of overall structure units). All indicators show a limited reality of Croatian hotel business which is emphasized by the categorization of Croatian hotels; there are 104 two-star hotels, 315 three-star hotels, 142 four-star hotels and 23 five-star hotels (Croatian Ministry of Tourism, 2010).

Croatian hotel business companies are facing a cross-roads of development. Their business philosophy, ways of thinking and out-dated and distorted system of values do not enable them to adequately participate in the competitive market game. Most companies do not envisage what development should look like. They also lack a defined target segment and are unaware of the challenges set by the turbulent market. Positional advantages based on natural resources and mass tourism are no longer attractive factors for potential tourists (richer tourists as a target segment) in times of global crisis and recession.

Qualitative accommodation offer depends on the ownership and management of hotel management companies. The following types can be distinguished in Croatia (Stipanović, 2006):

- Family Hotels (small and medium enterprise) represent the most efficient part of accommodation offer which can be most rapidly transformed and adapted to new market stimuli in order to introduce innovation into offer.
- Foreign multinational companies (foreign chains, brands) enter Croatian tourism with the aim of making profit, the side-effect of which is the increase in quality and more fervent competition.
- Domestic national chains develop by means of changing the way of thinking and acting, the affirmation of a new generation of managers, the revitalisation and reengineering of business.
- State companies – the greatest issue at hand is the privatisation of these hotels as a foundation for restructuring and redefining business policy in order to become competitive.

A qualitative analysis (offer analysis, SWOT analysis, benchmarking analysis, analysis of attitudes and evaluations given by tourists) and quantitative analysis (indicators of efficiency, profitability, effectiveness, productivity) show that an average Croatian hospitality management company lags behind the foreign competition considerably. Croatian hotel business must aim at improving and innovating offer of all facilities, whereby special emphasis is laid on the development of family enterprise. Small family hotels are the most desired tourism product in Croatia and have a constant rise of turnover and money spent per guest, with a prolonged season. They represent an impetus for the transformation of Croatian tourism from mass to an elite destination. They are also a synonym for sustainable development, offering a family atmosphere, cultural exchange, tradition, but also a way of opening up new jobs for the local population and improving the standard of living. Small family hotels are a part of the new image of Croatian tourism. The secret of their success lies in flexibility, an ability to react quickly to tourism stimuli; i.e. constant improvement and innovation of offer.

In order to improve competitiveness of Croatian hotel management, it is necessary to provide 100.000 new high quality hotel beds. It is believed that reconstructing existing houses and transforming them into small hotels and building one thousand new family hotels within the next 7 to 10 years, could cover 70 per cent of the necessary accommodation (Croatian Ministry of Tourism, 2010).

In order to improve hotel offer, it is necessary to implement a new system of values based on learning, knowledge and a new customer relationship management with an affirmation of new strategic directives.

4 New strategic guidelines of Croatian hotel tourism companies

A transformation of Croatian hotel business companies along with an affirmation of family enterprise, the entrance of foreign chains and the creation of national

tourism corporations, privatisation, the re-conception of state hotels with an emphasis on new strategic guidelines and the redefinition of business philosophy offer a possibility of making Croatian tourism competitive with leading European receptive tourism destinations. The competition of carriers of offer must lead to a qualitative reformation and the enrichment of offer adapted to contemporary tourists' needs, i.e. new quality of Croatian tourism.

A precondition for the development of hotel tourism enterprises is to let go of the former system and to adapt to a new system of values by means of privatisation, restructuring, standardisation, IT, the education of a new generation of managers and life-long learning. Innovation, diversification and the improvement of hotel offer should be a primary guideline in order to create an excellent and unique offer. The key lies in activating innovation capacities, i.e. the ability to undertake innovative activities so as to exploit knowledge within a company. The ultimate goal of such activities should be business success (Jurčić, 2010). A specialized and differentiated product presents fundamentals upon which the positioning of subjects of Croatian tourism offer on the global market should be based upon in times to come. "A strategic orientation of a company implies decision making in order to achieve superior performance (there are four ways in which companies approach the market and create processes: the prospector, defender, analyst and reactor) (Miles & Snow, 2003). In other words, there are three levels of Porters competitive advantage (price, quality, focus). Contemporary companies are setting up new strategic guidelines directed towards competition (benchmarking, business intelligence) and the process of satisfying demand (CRM, TQM) by establishing intellectual capital. They actively monitor their rivals' activities and changes in customer behaviour. The 21st century knowledge can't let go of old attitudes and turn to new ideas. It should focus on real intelligent knowledge which must find application in everyday situations in order to generate new trends and solve real life problems. Its real affirmation stems from the organisational concept that is based on a constant updating of knowledge and on an intelligent company.

Unfortunately, the process of reengineering is quite unknown in Croatia. There is no awareness of the necessity for reengineering as a response to more drastic changes (factors which influence the success of a project by improving business processes: directing changes, ability, organisational structure, planning and managing projects, IT infrastructure (All Mashari & Zairi, 1999)). A resistance towards change arises because of a fear of loss of power within a company or a lack of quality and inventiveness on the part of top managers who do not have a clear developmental vision. All this has a negative repercussion on present-day and future Croatian tourism and hotel management. Companies with such management are destined to fail, and tourism in such surroundings will probably disappear from the market.

Each company should be oriented towards the future and seek to acquire new knowledge and skills in order to satisfy evolving tourism needs. The issue at hand is how to transform traditional, inert and non-inventive companies as quickly as possible into inventive companies and organisations which are constantly learning. The future cannot be predicted. Rather it is susceptible to tailoring. The offer should not only adapt to current market stimuli, but act in advance since it is slow by nature. "The greatest danger in turbulent times is not the turbulence itself but the way of acting according to yesterday's doctrine" (Drucker, 1992). Therefore it is necessary to offer a new conception of development that will be shown with the help of the example of Liburnia Riviera Hotels, d.d. Opatija (how to turn declarative knowledge and awareness about change into competitive activities in order to innovate offer).

5 Reconceptualisation of the development of Liburnia Riviera Hotels d.d. Opatija

Liburnia Riviera Hotels Opatija is one of the leading hotel chains in Croatia. Their management policy follows the hotel business tradition of the Opatija Riviera. Their 15 hotels and 6 villas (1.969 rooms with total of 3.721 beds) offer a high quality hotel product

on the Adriatic coast. At the same time, they represent a framework for the development of the local community and an improvement in the standard of living. The company employs 850 full time workers and 200 seasonal workers (LRH Opatija, 2010). The transformation from the former system of arranged economy into a new system was crucial for the development of the company, as were new rivals (foreign hotel chains, national hotel chains, family hotels) which dictate new criteria of contemporary business. The two stages of development include the period when LRH had absolute market dominance, and the other refers to market competition and new demands of present-day tourists. The company was burdened with problems, financial issues, uneducated personnel, a traditional organisational model and a system of management retaining the old business philosophy which lacked an explicit and clearly defined developmental concept, bereft of new ideas and innovations. The business policy of selling facilities in order to reconstruct other facilities has not resulted in success.

The privatisation process of LRH began in 2005 (by selling LRH d.d. to SN Holding, the government was looking to repay the debt of 1,2 billion HRK to SN Holding which was incurred during coupon privatisation in the 90's). After two futile attempts at taking LRH over and numerous disputes between the state and investors, the government transferred ownership of 54 per cent of the shares to SN Holding on 27 March 2010, while the control package remained the ownership of the town of Opatija and neighbouring units of local administration (25 per cent+1 share) (SEEBIZ, 2010).

The question arises as to how to achieve the fastest qualitative leap forward and what kind of change the private owner has to initiate and how to change the mind-set and culture of the employees.

The aim must be investment, qualitative transformation and a reengineering of the company with a clear business vision, a reconception of development, the flow of fresh capital (negotiations about the annexing of a foreign chain – Kempinski to Hotel Kvarner) and interaction with a vision toward destination develop-

ment (based on contemporary conditions to set goals and strategies for development).

It is necessary to find a way to transform large sleeping rooms in hotels adapted to mass tourism into flexible hotels which will adequately respond to the needs of 21st century tourists. Two questions come to mind:

- How to be better, to be different from the competition – what are the new tourist contents, how to include globalised trends into autochthonous values?
- How to recognize, anticipate and adapt to new tourist tastes, how to be ahead of tourist preferences?

The contemporary advertising slogan refers to comfortable rooms, exciting bars and restaurants, conference rooms, wellness, recreational activities, outdoor activities, as well as other activities. All of these elements indicate an offer that is not unique and exciting enough. Contemporary activities and events do not present a significant qualitative leap (Liburnia, 2010): open doors wellness, promotions of cakes, pancakes, Cosmetic News, Orchestra Academy Ossiach concerts ...

The re-conceptualization of the development should include enriched contents, animation, affirmation of the entertainment industry and active vacation, thus creating a unique experience for tourists and a quality of service that will differ from the existing offer in the macro-destination in order to achieve competitive advantages. This can be particularly seen in the challenges facing the dynamic market and the recession (although finances are not the key issue, but are necessary for investments). LRH needs to distance itself from the competition by offering better a quality of service and an innovative product with a maximum experience for tourists. Hotels need to be distinguished from one another. The target segment needs to be defined and details important for the choice of a particular destination to be established.

A company can realise its competitive advantage by diversifying from rivals; that is, by implementing a concept that will result in remarkable success (Brewster, 2007). LRH d.d. must assume an active role

in increasing its attractiveness as a destination (tourists choose a destination first, then service providers in the destination), i.e. in the transformation process from the destination product to destination event and from destination marketing to destination management. It is necessary to invest in an improved quality of accommodation capacities and new content tours and events which are missing and which could lead to a prolonged season. Future development must include a synergy of hotel product innovation (innovation, complete product of the destination) and promotion (uniqueness, creating a brand) in order to reposition the product on the market. Top companies do not believe in perfection. Rather, they believe in constant improvements and changes (Peters & Waterman, 2008). LRH d.d. Opatija has to be able to gather information quickly in order to use the same information to adequately respond to market challenges. The process of innovation includes constant change as a result of learning and constant learning in order to introduce new changes. If we want to succeed in a world where nothing is predictable but the rate of change, then we need to be able to act more rapidly.

LRH d.d. needs to adopt following business determinants in order to develop further:

- The necessity of constant change and a quick, direct response to that change
- Orientation towards innovation and improvement in conditions where there are no permanent competitive advantages
- Orientation towards tourists (CRM)
- Orientation towards the competition (benchmarking and business intelligence) in order to increase competitive advantage.

A prerequisite for development is the reengineering of the company, a change in business philosophy and the education of a new generation of managers in order to surpass the gap between great ability and limited reality. Restructuring should solve the financial issues of the company (financial problems of the city of Opatija as the owner of the control package which can hardly invest into the development of LRH d.o.o.) and set foundations for future business with potential new philosophies and re-conceptualization. Reengineering

should include a change in consciousness, system of values, the way of thinking (a change from the state into private ownership which seeks to multiply profit) acting, organisational structure, directing processes, tourism product and innovation of all segments along with enterprise affirmation, innovation and intellectual capital

It is necessary to set up new teams (how to utilize employee potential in the best possible way) (Cascio, 2008, 368) and plan organisation as opposed to the traditional, vertical organisation loaded with various management levels which make the process of decision making long and difficult. The key lies in creating a new management that will stir qualitative trends of improving offers and develop a unique product, as well as gaining the support of all employees in initiating and carrying out changes. Education, motivation (self-assertion), evaluation and the empowerment of employees should be introduced. This will lead to participation of employees from lower hierarchical structures in the decision making process with the aim of satisfying tourist needs completely. All employees should be willing to accept new knowledge and acquire new skills, as well as to change old habits. A new business culture of learning, knowledge and innovation management should be established, a knowledge which conditions competitiveness and a better quality of service.

In order to be able to respond to the challenges of a more competitive market, LRH d.d. has introduced two developmental changes. The first stage of changes includes middle management for customer relationship management (CRM), and the second stage refers to the development of business intelligence. The key of CRM is to define the target segment and tastes of existing and potential tourists and to adapt all activities to their needs. Being an intelligent company is the more frequent assumption not only for success, but also for participation in market competition (Liautaud &

Hammond, 2006). Despite the risk in times of recession, the company must be fundamentally changed based on knowledge and research. None of the developmental stages is definite nor the best, but represents necessary constant innovation and change. Prompt action motivates an internal resolution to act and succeed right now (Kotter, 2009).

5 Conclusion

Tourism changes at a tremendously fast rate. Thus it is difficult to anticipate the pace, dynamics and direction of future development. Innovative companies in tourism that are already investing into intellectual capital and information as motivators, and the creation of new offers and qualitative transformation can be successful in the dynamic globalised tourism market.

Recent research and analyses show that Croatian tourism companies are having difficulties adapting to the new system of values (as well as the tourism in general in challenges of change) and are not characterised by their uniqueness. The authors' research emphasises that companies should cease living in the past and stop accept changes only declaratively. Rather they have to face the future by being proactive (to use new ideas to create a more qualitative offer based on local autochthonous values) and by anticipating and establishing new trends in hotel management.

LRH d.d. Opatija can achieve competitive advantages in conditions of ownership change only by re-conceptualising the development (real transformation of the example of mass tourism into a carrier and stirrer of active vacations, events and experiences adapted to the more demanding market segment), by setting up new strategic guidelines and acquiring business culture. The competitive advantages should be based on speed (innovation) in profiling excellence and returning the "First lady of tourism" – Opatija, to her former glory.

Obvladovanje sprememb s ciljem izboljšanja upravljanja v hotelskih podjetjih na Hrvaškem

Povzetek

Kadar govorimo o prenovi delovanja sodobnih hrvaških hotelskih upravljaljskih podjetij, se moramo zavedati, da bi morala nova poslovna kultura temeljiti na dinamičnih silah, spremembah, transformacijah, izboljšavah in kvalitativnih inovacijah. Najprej je treba povečati zavest o pomenu sprememb, vzpodbujati njihovo uvažanje, dejavno stopati v prihodnost in domiselno prestopati meje. Spremembe se dogajajo že v tem trenutku in se bodo dogajale tudi v prihodnje. Pomembna orodja za doseganje konkurenčnosti so inovacije, ki temeljijo na intelektualnem kapitalu. Konkurenčna so lahko le podjetja, ki razumejo svoje stranke in znajo predvideti njihove želje in potrebe (če želimo biti pred drugimi, zgolj prilagajanje sodobnim okusom ni dovolj, marveč je treba uvesti novo ponudbo in izvajati proaktivno trženje). V članku so opredeljeni trendi v turizmu v 21. stoletju in ocenjena konkurenčnost hrvaškega turizma. Raziskave so v tem primeru povezane z inovacijo ponudbe hrvaških hotelskih in turističnih upravljaljskih podjetij, kar je kvalitativni odziv na globalizirano ponudbo uveljavljenih tujih hotelskih verig.

Ključne besede: spremembe, inovacije, intelektualni kapital, hrvaška hotelska upravljaljska podjetja, prenova delovanja

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