

# GENERAL MODEL OF SMALL ENTREPRENEURSHIP DEVELOPMENT IN TOURISM DESTINATIONS IN CROATIA

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*Review*

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## **Abstract**

Small tourist enterprises on the local level lack favourable and «friendly» business environment which would enable larger investments in increasing the quality of their products, strengthening the market position of its products, optimal use of resources and specialisation, which would create pre-requisites for generation of new added values, in order to to achieve a more respectable market position, which has been seriously threatened by large corporations as a result of globalisation rise. Competitiveness of local small entrepreneurs in tourist destinations which operate in the global business environment will increasingly depend on the ability to co-operate and form partnerships on the local level. Competitiveness of any tourist destination in relation to others will in the future depend on the effectiveness of its tourist clusters. The main aim of this paper is to show how can tourism cluster of small entrepreneurs be possible model for small entrepreneurship development in tourist destinations in Croatia and how it can increase its competitiveness (case of Labin-Rabac tourist destination). The purpose of this paper is to emphasize the importance of clustering in the tourism sector, and highlight key advantages and benefits of establishing tourist cluster for its cluster members and tourist destination. Basic hypothesis: pooling of small entrepreneurs into tourism clusters is the base of the most efficient way to achieve future development of tourist destinations in order to achieve more competitive tourism.

**Keywords** Tourism Cluster, Small Entrepreneurs, Competitiveness Diamond, Cooperative, Tourist Destination

## **1. THE TERM AND EVOLUTION OF CLUSTERS**

The word «cluster» originates from English and has various meanings. It is interpreted as a group, bunch, multitude, and can be defined in economic terms as a contemporary way of corporate networking, by means of forming co-operation chains based on manufacturing co-operation, turnover of goods, products, services, and technologies, which stimulate the development of small and medium-sized enterprises in a flexible way (Dostić 2002, 160).

A cluster implies a large group of enterprises with similar business operations on a specific geographic area; local network of specialised companies whose manufacturing processes are closely related through the exchange of goods, services, and/or knowledge; concentration of inter-related companies, specialised suppliers and service providers, companies from similar business fields, institutions which co-operate and

compete in their business operations (Swann and Preveze, www.britishcouncil.org, Berg, den Van and Winden, www.britishcouncil.org).

Table 1: Four Approaches to Interpretations of Regional Clustering

SCHOOL	IMPORTANT FACTORS OF CLUSTER GROWTH AND DEVELOPMENT
<b>Industrial districts</b>	External economy + mutual confidence and «industrial atmosphere» lead to innovation
<b>Californian school</b>	Vertical integration, reduction of transaction costs, specialised local labour markets + conventions, informal rules and habits
<b>Nordic school</b>	Innovation as learning, learning as a local process, significance of non-codified knowledge
<b>Porter's industrial cluster</b>	External economy has been increased by connectivity/better approach to inputs, local competitiveness and local consumers

Source: European Commission: *Regional Clusters in Europe, Observatory of European SMEs*, No. 3., Brussels, 2002, p. 14.

The first clear definition of a cluster originates from the mid-20<sup>th</sup> century, by a distinguished representative of neoclassical economic theory, an economist called Alfred Marshall, who based his research on the analysis of patterns of economic activities in English industry. He established the so-called «Marshall Trinity», i.e. three reasons because of which companies in the same business line, located in the vicinity, would be more productive if they worked together. The reasons are: collective labour force groups, specialisation of suppliers, and dispersion of knowledge. According to Marshall, the cluster basics are: common labour market, suppliers' specialisation, dispersion of knowledge, entrepreneurship, remaining behind decisions made in the past, culture, local demand.

Fifty years later, a regional school which based its views on works by German economists Lösch and von Thünen, re-defined Marshall's idea of possible corporate benefits for reasons of vicinity. They noticed the difference between two types of external economies: local economy, which relates to benefits for companies in mutual vicinity which operate in the same business line, and urban economy whose benefits are a result of the vicinity to different companies in different lines of business. In the book entitled «The Location of Economic Activity», Hoover and Giarratani describe external economies resulting from geographic concentration, describing local and urban economies (Hoover and Giarratani 1948,120)

Powerful entrance of small «growing» enterprises with exceptional business results attracted great international interest for forming of clusters in the late 1980s, because of which many Europeans and Americans travelled to developed Italian regions in order to encounter the first business associations first-hand.

In 1984, two American sociologists, Michael Piore and Charles Sabel, announced «the second industrial division» stating that saturation of mass markets by relatively standardised products caused buyers' turning to products of greater diversity and quality. The change of demand accompanied by technological changes in the form of flexible tools and computerisation enable small enterprises, especially businesses which employ highly qualified labour force, to be more competitive than large – less flexible enterprises. Studies by these authors, based on Italian industrial zones, indicate that networks of small enterprises can operate very successfully on the international market by manufacturing unique, high-quality products in all sectors. Because of flexible organisation, small enterprises have possibilities to quickly recognize changes in the environment, respond to them, and fulfill market expectations by introducing limited edition products.

Before 1990, a few researchers applied formal mathematical methods to economic space problems; however, in the past 15 years, there has been an increase in establishing sophisticated mathematical models to the initial Marshall's questions. The models indicate that, according to the spatial criterion, clusters will be founded when companies could profit from an increase in the production volume as a result of average cost reduction, when companies would have the possibility to freely form the prices with low transport costs, and when buyers, suppliers, and employees become mobile (Ottaviano 2003, 665-673).

Clusters can be viewed from several aspects. Taking into consideration attributive features of their members-entrepreneurs and complementarity as pre-requisites for foundation, there are local, regional, national, cross-border, spontaneous, and planned clusters. *Local, regional, national, and cross-border tourist clusters* are formed according to the spatial criterion, and *sector clusters* according to business line criterion. *Spontaneous clusters* are formed as a consequence of recurrent business- and developmental co-operation of entrepreneurs. They specialise and stimulate efficient work distribution, while *planned clusters* are based on a pre-defined intention of foundation in private-public partnership projects. Cluster foundation can be conducted in two ways. The first way is the so-called «top-down approach», with the basic characteristic that foundation is initiated by the government and its institutions, which have the basic role of a motivator. This is characteristic for transition countries and developing countries in which small entrepreneurs often do not have the power, nor financial resources for pooling. By using the other, so-called «bottom-up approach», small entrepreneurs pool spontaneously and on their own initiative, locally or regionally, and many scientists and experts which study clusterisation agree that this way of pooling is the best possible way of forming clusters, especially of small tourist entrepreneurs.

A common characteristic of all kinds of clusters is the concentration of entrepreneurs and activities in one place. Regardless of the cluster aspect, what connects them is complementarity of the offer, voluntariness, and partnership, co-operation and various relations in the pooled group of entrepreneurs, as a result of entrepreneurs' adjustment to turbulent market-, technical-technological conditions, changes in production and organisation changes, and they are most frequently generated by institutional subsidies. Local and regional community are very significant in this process.

Without exception, all clusters have a significant role in raising of innovation processes, minimisation of business costs, improved organisation of work- and organisation processes, and, ultimately, increasing competitiveness of business entities through the quality of their products and services and their specialisation, in order to fulfill contemporary requirements of the tourist demand in the best possible way, as well as expectations of modern tourist whose «tourist experience» represents general perception of his experience during his stay in a tourist destination, defined as a totality of «value for money», «emotions for money», and «experience for money».

## **2. TOURISM CLUSTER OF THE DESTINATION IN THE PRISM OF PORTER'S «COMPETITIVE ADVANTAGE DIAMOND»**

During the past century, there has been a sudden increase in interest for industrial clusterisation, and the growth of globalisation inevitably imposes the necessity to develop tourist clusterisation as the only possible manner of survival of global tourism, and every tourist destination alike. By the cluster concept, tourist destinations develop more quickly, apply contemporary working methods faster, and draw the maximum from the market environment, by which the destination gains competitive advantages in relation to others (Dostić, Horvat and Kovačević 2004, 7).

Strategic importance of tourist clusters originates from the following:

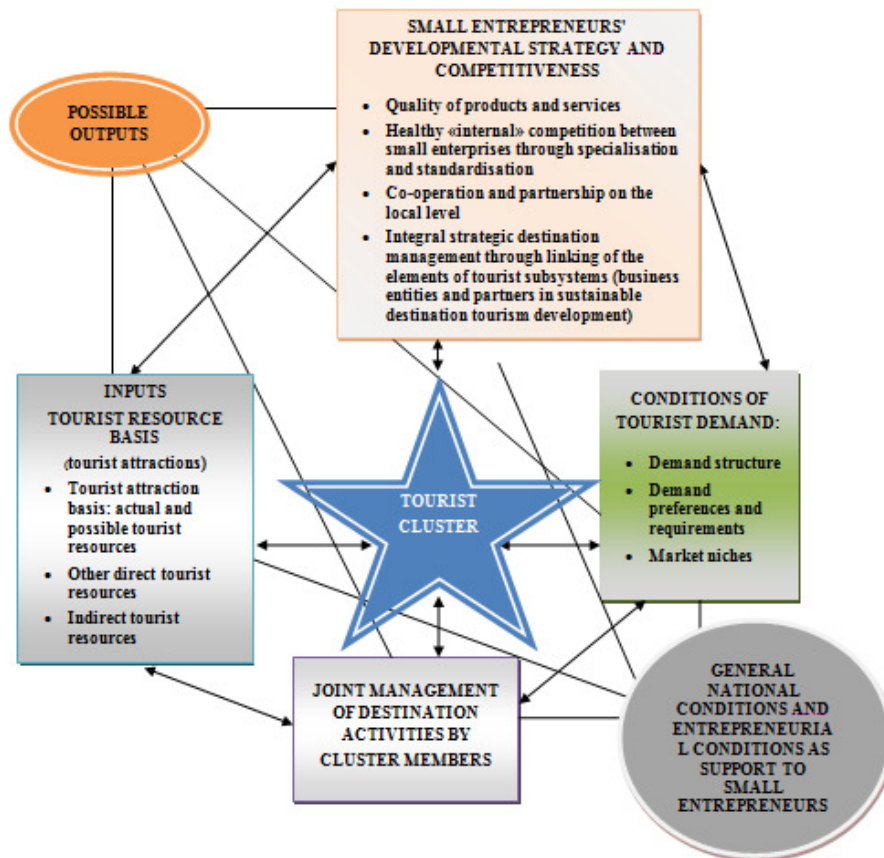
- They help in re-structuring of non-effective enterprises,
- They diminish the monopoly of large companies and offer original, individualised products in accordance with world tourist trends,
- They open the door of global market to small enterprises,

The most frequently accepted concept of cluster development is the Porter concept, which defines clusters as «geographically oriented groups of interrelated companies and institutions in a specific sector, linked by cooperative behaviour and complementarity (Porter 1990, 8). In accordance with Porter's approach, clusters represent networking, i.e. a group of enterprises, but also, all the other elements which make a tourist destination competitive. In this context, in addition to economic entities, a cluster comprises tourist attraction basis, tourist infra- and suprastructure, various service providers, various sectors and industries, institutions, human resources and auxiliary services which collectively, through various forms of co-operation and partnership within a destination, generate added values, and which are based on rational use of natural and manufacturing resources, with the purpose of managing common activities of the destination in order to create a unique tourist product of the

destination. This tourist product would increase the level of competitive advantages of its members, but also of a tourist destination as a whole.

In his book *Competitive Advantage of Nations*, Porter describes industrial clusters as a product of several factors which he calls the «competitiveness diamond», and which are crucial for understanding the reasons why clusters are more competitive than separate enterprises: manufacturing conditions, demand conditions, structure, competition, the same and complementary activities. Can his concept of industrial cluster be applied to the tourist destination cluster?

Chart 1: Porter's Competitiveness Diamond Applied to Small Entrepreneurs' Tourist Cluster in a Tourist Destination



Source: Author's creation

The competitive diamond implies that a tourist destination will, in a specific point in time, provide optimal business conditions to all participants in the destination which create added values. By using the competitive diamond, these conditions are provided for enterprises, but also for demand, manufacturing factors, human resources, private and public sector, and all the elements without which performance of competitive

activities would not be possible. The basic benefit which originates from the competitiveness diamond is increasing operative efficiency and strategic positioning of a tourist destination.

Inputs include factors for «manufacturing» tourist products and services which can be used by cluster members, such as highly qualified and trained human resources, infrastructure, tourist resources, tractions, institutions, accommodation facilities, etc. Demand conditions imply educated tourists who will, by their sophisticated demands, make small entrepreneurs co-operate, analyse their preferences, and constantly innovate in order to satisfy their needs and expectations, by which they will help small entrepreneurs in the cluster to be more competitive and to operate more successfully on the global market.

Small enterprises pooled in a cluster will increase their competitive advantages if they choose a developmental strategy which implies investing in the quality of their products and services, in order to differ from the competition and for their products to become more superior, based on constant innovation and standardisation. Their developmental strategy will be realised only if they build it on the basis of a strong partnership and co-operation with their buyers and suppliers, but also all participants in tourism. This will be achieved by linking of tourist subsystem elements, primarily the subsystem of agriculture and consumption, trade, traffic, and construction. Pooling of small entrepreneurs in clusters in tourist destinations provides a number of benefits to its members, which can be summarised as follows:

- Integrality of competence on the local level and the possibility to use trained human resources,
- Improved co-operation with suppliers and establishment of a rational supply chain – cost rationalisation,
- Lower transport costs because of geographical concentration of entrepreneurs,
- Participation in developmental projects and complementary forces in order to collectively implement programmes which demand more financial resources, and which could not be realised individually,
- Increasing competitiveness of small entrepreneurs through quality products and services and specialisation in various selective forms of tourism,
- Strengthening of attributive destination characteristics and increasing competitiveness of the destination through new products and services – generation of new added values,
- Improved promotion of individual and collective products – destination product
- Strengthening of the position of one's own products and services on the global market
- Stronger development of tourist infra- and suprastructure,
- Exchange of knowledge, experience, and human capital,
- Standardisation,
- Stronger bonds between small enterprises and institutions which stimulate innovation and investments in research and development.

The greatest benefits of small entrepreneurs' pooling into clusters for a destination and its population reflect in the strengthening of destination economy because of the growth of productivity and competitiveness of small enterprises, which affects the reduction of the unemployment rate for reasons of possible greater investments in new developmental projects. The strategy of a tourist destination cluster should take into consideration the principles of a successful local and regional developmental policy. Tourist boards and local government have the important role of a motivator in the development of tourist clusters on the level of tourist destinations. It is inevitable to develop the following segments:

- Investing in human resources in tourism,
- Creating a friendly entrepreneurial environment for small entrepreneurs in tourism – strengthening of entrepreneurial climate, stimulation of low-risk private investments,
- Reduction of administrative barriers,
- Faster foundation of enterprises,
- Favourable financial environment,
- Promotion of clusters as a way of stronger and more effective management of joint activities in a destination,

It should be pointed out that the government has a special role in terms of all the diamond elements. The government is responsible for infrastructure and definition of acts, regulations and rules (general national and entrepreneurial conditions) by which it affects competitiveness and demand.

According to Porter's cluster concept, a cluster is a manifestation of the business diamond, and tourist destinations are a perfect framework for the development of small entrepreneurs' cluster.

### **3. TOURISM CLUSTERS IN EU AND CROATIA**

In the EU Member States, there is a total of 1782 clusters registered at this time. Table 1 shows that the greatest number of clusters is located in Germany (397), followed by Italy with 222 clusters, the United Kingdom with 187, and Spain with 153 clusters. The fewest clusters in the EU-15 are found in Luxembourg – only 3, while the fewest clusters in the new Member States of EU 10+2 are found in Cyprus, Latvia and Malta. The EU Member States have a total of 57 tourist clusters. The analysis of the EU-15 Member States has shown that the greatest number (12) refers to Italy, followed by the United Kingdom with 9, and Spain with 8 tourist clusters. From the new EU 10+2 Member States, the greatest number- two – is found in the Czech Republic. The most renowned tourist cluster in Europe is the „Nice Riviera». Strengthening of the clusterisation process in the EU Member States is conducted through a series of policies comprised in key documents: «Entreprise Policy», «Regional Policy», «Research and Innovation Policy», The Concept of Clusters and Cluster Policies and Their Role in Competitiveness and Innovation, which originate from the European Commission's decision to promote European cluster policy. For this purpose, the High-

Level Advisory Group on Clusters was founded in December of 2006 with the task to strengthen European cluster policy and improve and stimulate forming of clusters.

Table 2: **Overview of the Number of all Clusters and the Number of Tourist Clusters in the EU-27**

EU Member States	Total cluster number	Number of tourist clusters
<b>EU 15</b>		
<b>Austria</b>	54	6
<b>Belgium</b>	33	2
<b>Denmark</b>	28	1
<b>Finland</b>	22	0
<b>France</b>	163	4
<b>Greece</b>	31	2
<b>Ireland</b>	14	3
<b>Italy</b>	222	1
<b>Luxembourg</b>	3	12
<b>Holland</b>	56	0
<b>Germany</b>	397	2
<b>Portugal</b>	39	1
<b>Spain</b>	153	8
<b>Sweden</b>	39	0
<b>The UK</b>	187	9
<b>EU 10+2</b>		
<b>Cyprus</b>	7	1
<b>The Czech Republic</b>	74	2
<b>Estonia</b>	9	0
<b>Latvia</b>	7	0
<b>Lithuania</b>	11	0
<b>Hungary</b>	48	1
<b>Malta</b>	7	1
<b>Poland</b>	147	0
<b>Slovakia</b>	26	0
<b>Slovenia</b>	10	0
<b>Bulgaria</b>	49	0
<b>Romania</b>	83	1
<b>TOTAL</b>	<b>1782</b>	<b>57</b>

Note: In the cluster database, in the adjustment of the definition to European conditions and classifications, American SIC classification of economic industries has been co-ordinated with the European NACE classification.

Source: Authors' creation according to [www.clusterobservatory.eu](http://www.clusterobservatory.eu)



This European Commission's group had the main role in the preparation of the „European Cluster Memorandum“ which was adopted on the European conference in Stockholm on January 22-23 In 2007, the Memorandum represented a document by which support was provided to national and regional agencies for innovativeness and economic growth and directed to all the policy creators on the national and European level (designing headway), and binds its signatories to undertake concrete actions and identify the necessary changes in regional, national and European policy. The Republic of Croatia is also one of the countries which signed the Memorandum, and which participates in the creation of the EU cluster policy via the National Cluster Centre founded in the framework of the Croatian Employers' Association.

The examples of tourist clusters in Croatia are the following:

- **„Kuna« - a regional tourist cluster.** The idea has been accepted by certain family farms which operate in rural tourism in the towns of Lipik and Pakrac; some sports associations also extended their support. The cluster includes everyone who can contribute to the development of rural continental tourism. The idea was also supported by the Ministry of Tourism and the Ministry of Economy. When the cluster was founded, they chose the legal form of a cooperative, because in this way, all members are equal and have the same rights and obligations in the possibility to use EU pre-accession funds. Members of the cluster openly state that they were aware of natural beauties which surround their two towns, and got the idea to merge all the offers into a whole during their study tour in Austria
- **Lonjsko polje cluster.** It was founded in Krapje, and comprises about 40 tourist entities from Lonjsko polje area: tenderers of tourist services, healthy food manufacturers, wine-makers and cheese manufacturers. This is the first tourist cluster in the Sisak-Moslavina County with tourist purpose and among the first in Croatia. It was founded in order to stimulate sustainable development and use natural and cultural resources of the Sisak-Moslavina County for tourist purposes, and to intensify the existing ways and present innovative ways of tourist promotion. It was founded with the support of the Developmental Agency of the Sisak-Moslavina County, Department for Crafts, Small and Medium-Sized Entrepreneurship and Tourism, and Tourist Board of the Sisak-Moslavina County.
- **Tinjan cluster.** Tinjan Municipality in the County of Istria has also decided to take a step forward in the promotion of its region and its tourist resources. The association operates in the framework of the Istria County Tourist Board, and the objective is creation of a recognizable tourist brand of Tinjan area. It comprises about 20 caterers, room and suite renters, and other tourist entities.
- **Touring Sutla and Žumberak tourist cluster.** Initiated by the Department of Economy of the County of Zagreb, it comprises family hotels, restaurants, coffee-shops and holiday resorts, peasant farms and wine cellars, souvenir manufacturers, tourist boards. The purpose of the cluster is to be the moving force, the promotor and agent of development of the common tourist zone called Touring Sutla and Žumberak.

The greatest problem in discovering the exact number of active clusters in the Republic of Croatia is non-existence of the central cluster registry. The only research conducted since 2007 entitled «Clusters in the Republic of Croatia» was conducted by the BIOS Entrepreneurial Incubator and the Audeo Agency for Market Research and Opinion Polls from Osijek, whose patrons are the Municipality of Osijek and the Ministry of Economy, Labour and Entrepreneurship. The research was conducted for the second time in 2010 and continues the research from 2008, whose specific objectives included establishing.

It is fair to say that the process of clusterisation in Croatia has only just begun, but also that it can be a key to raising the efficiency of Croatian enterprises in order to achieve long-term competitiveness, on both domestic and foreign market. However, in order to achieve this goal, Croatian enterprises must primarily re-structure, re-position and specialise, because of which great majority of clusters in Croatia has just reached the initial stage.

#### **4. RESEARCH OBJECTIVE AND METHODOLOGY**

The basic purpose of this research is to contribute to the possibility of small entrepreneurship development and increase in competitiveness of a tourist destination. The Labin-Rabac tourist destination in the County of Istria was selected as an example, which, as a result of many factors, remained unrecognisable on the market in its immediate and distant environment. It has been separated from the main developmental tourist impulses of the County of Istria. Consequently, small entrepreneurs in this destination developed tendencies of more successful tourism development of this destination in the future. The main objective of the research is to get a realistic image on the state of small entrepreneurship and to propose a model of small entrepreneurship development of the analysed destination.

Hypothesis of the whole research: non-competitiveness of tourist destination Labin Rabac and low level of cooperation between the tourist holders in destination, influences on business and competitiveness of small entrepreneurs, which indicates the necessity of establishing alliance of small entrepreneurs as a model of small entrepreneurship development.

The paper is based on primary data. The research is descriptive, single, on an intentionally selected sample of 76 entities: 66 private renters, 2 boarding houses, 2 bars, 1 peasant farm – with headquarters in the town of Labin, 4 restaurants, 1 small hotel. The participants were selected according to the criterion of the type of catering facilities (all in private ownership since foundation).

The structured interview was conducted on the basis of a pre-defined structured questionnaire which contained 35 questions divided in 4 groups. The first group of questions referred to getting information on how existing competitiveness of destination impacts on small entrepreneurs business. Second group of questions collected the information about the assumptions of the strengthening small entrepreneurship and enriching small entrepreneurs tourist offer in destination.

Information about the tax impact on tourism and small business entrepreneurs were collected in the third group of questions. The fourth group of questions relates to the awareness of small small entrepreneurs in the destination about state and local incentives and credit lines from banks.

Because of the vicinity of the target group, the used method was direct, structured interview, in order to cover all relevant fields and acquire all the relevant information. In this process, all the participants were asked the same questions in the same order. The interviewed small entrepreneurs were asked questions with the possibility of multiple answers. The research was conducted by phone-announced and pre-arranged visit, and the interview was conducted by the author of this paper. The research was conducted in the period from January 1, 2009 until 04/01/2010.

## **5. SMALL ENTREPRENEURSHIP DEVELOPMENT IN TOURIST DESTINATION LABIN RABAC**

The research results fully indicate the current state of small businesses in the destination, and represents the base for proposing the model of small entrepreneurship development in Labin-Rabac tourist destination. In this part of paper, the research results will be presented only partialy. Not all the issues polled by questionnaire will be presented because of large number of questions, but those who arised like issues of crucial importance for small entrepreneurs and wich, in their opinion, have the largest impact on their business and competitiveness as well as future development of tourist destination Labin Rabac.

### **5.1. Research results**

Small entrepreneurs in destination think that small family hotels, private renters, agricultural family farms which offer accommodation services are the greatest potential of development of this destination in the future (86%).

As much as 49% of the interviewed think that one of the most important disadvantage for improvement of destination's competitiveness is unclear definition of the vision and destination image, small entrepreneurs think that new strategic positioning of the Labin-Rabac destination on the tourist market will be best achieved by understanding a tourist product as a complex product (47%). The greatest disadvantages of the destination which directly affect business activities of small entrepreneurs are: low support of local entrepreneurship on the local, regional, and national level (43%), followed by unrecognizable destination brand, insufficient destination quality and inadequate marketing and lack of introduction of new products and services (30%), which indicates evident interdependence of small entrepreneurs' business activities, their competitiveness and destination competitiveness.

As well, it is very interesting to look how small entrepreneurs rate the position of their products on the market: accomodation – rated avarage (66%), restaurant menus – rated average (54%), food products from their own production – low rated (63%), position of

organic products – low rated (80%), sports, recreational and wellness facilities – low rated (46%).

The research results also indicate a generally low degree of co-operation between entrepreneurs and other participants in the destination tourism.

According to the small entrepreneurs, the biggest problems are their dependence on travel agencies, a high taxes rates, poor promotion and cooperation with the Tourist Board and cooperation with other participants in the destination.

Three key measures of development of small businesses in the destination, according to the small entrepreneurs are:

1. Improving the knowledge and skills of human resources in the tourism sector and sectors related to tourism, investment in knowledge and innovation (71%)
2. Creating a friendly entrepreneurial environment, supporting a new financial initiatives (personal line credits), rescheduling of loans (76%)
3. Support local farmers in producing high-quality local products, evaluation and promotion of local products, encourage the development of private camping resort on family farms (49%)

According to the small entrepreneurs, there are 5 priorities in creating good business environment for small businesses in the destination:

1. Creating an environment in which entrepreneurs and family companies can make progress (84%)
2. Making public administration responsive to the needs of small enterprises (62%)
3. Creating rules according to the principle «Think Small First», which means that, when a new regulation is adopted, the question posed first should be how it affects small entrepreneurs, to make participation in public procurements easier for small entrepreneurs and enable better use of government subsidies allocated for small enterprises (59%)
4. Promotion of improvement of skills and all forms of innovation (45%)
5. To provide entrepreneurs the possibility to turn environmental challenges into their opportunities and to encourage and support small enterprises in achieving benefits from market growth (33%)

Small entrepreneurs in destination believe that the new strategic positioning of Labin-Rabac destination on the tourist market will be the best achieved by:

1. Understanding the tourism product as a complex product (47%)
2. Increasing the quality of products and services (37%)
3. Crating unic tourist destination product (34%)
4. Focusing on the increasing number of market segments and new distribution channels (20%)
5. Respecting guests preferences ( 16%)

Interviewing small business owners, the existing types of tourism for which they believe it is necessary to further develop in the destination, in the following order of importance are :

1. Sports and recreational tourism (42%)
2. Leisure tourism (38%) and
3. Rural eco tourism (28%) and

New types of tourism that have to be necessary developed, in the following order of importance, are:

1. Nautical tourism (37%) and
2. Health Tourism (33%)

The development of small entrepreneurship in tourist destination Labin-Rabac for years takes place spontaneously, and policy development of small entrepreneurship is inadequately planned which negatively affects the business of small enterprises, their competitiveness and the competitiveness of the whole destination.

The destination do not use all available human potentials for professional collaboration that could lead to better promotion of small entrepreneurship and wich would strengthen their market position and competitiveness. On the one hand, the local government in destination does not ensure local infrastructure for small businesses (physical infrastructure, communication to the national level in order to affirm the interests of small businesses in this area), while on the other hand, the state still inadequately creates an incentive policies, such as lower taxes and financial incentives.

Better promotion of small entrepreneurship, financial and technical assistance support to small businesses, development of entrepreneurial infrastructure, human resource education, harmonization of legislation with the needs of small businesses and especially the encouragement of cooperation between small entrepreneurs, as well as between them and other participants in destination, forming an alliance of small entrepreneurs in destination, are key measures and activities to improve the situation of small entrepreneurship in the destination which will increase the competitiveness of the destination itself, and competitiveness of small entrepreneurs in the destination as well.

Tourism in destination Labin-Rabac is characterized by various positive attributes like tradition, nature, loyalty to the market and the favourable accomodation type structure. But at the same time, some indicators, although better than the Croatian average, show this destination is faced with a serious effort which should result in continual enchancement of our offer. As the end goal of the development of tourism in this destination is also the feeling and the actual improvement of the standard of living, plus the satisfaction of the tourist and entrepreneurs, destination should consider such development which will not jeopardize the long-term basis of this industry.

Fundamental goal of the future development of tourist destination Labin-Rabac is to develop a comprehensive tourist offer in the form of various new types of tourism . It is necessary to implement analysis of existing types of tourism in destination and their synergy with the new ones, in the function of creating a recognizable image of the destination in order to achieve a new strategic positioning of the destination. In the

interest of developing new stypes of tourism, the author of this paper proposes the creation of studies for each of them to determine added values that small businesses would make through them, with respect to their specificity.

Alliance of small entrepreneurs in the form of tourism cluster is possibility for small entrepreneurs in the destination to achieve respectable position in the market, jointly promote their individual tourism products and destination product. Encouraged by the success of a healthy internal competition and cooperation they will increase the quality of their product and services.

Entrepreneurs are interested in cooperation and the establishment of cluster that would enable a better cooperation between businesses as well as joint advertising and expansion of new tourist attractions. Out of 76 small entrepreneurs who participated in this research, 72 of them believe that the initiative to found a cluster is very positive, which could serve as a basis for improved co-operation and coordination among the participants.

Obtained research results confirmed the basic hypothesis of the paper and hypotesis of entire research conducted in tourist destination Labin-Rabac.

## **5.2. Small Entrepreneurship Development and Increasing Competitiveness in Labin-Rabac Tourist Destination**

On the basis of the obtained research results, the author proposes a model of small entrepreneurship development in tourism and catering industry of Labin-Rabac tourist destination through a model of the basic «tourism cluster» structure and its relationship to the environment. The purpose of pooling small entrepreneurs of this destination in a «tourist cluster» is «more efficient management of collective activities» of Labin-Rabac tourist destination and building of an «umbrella brand», brand destination based on the differentiation of a tourist offer in relation to other destinations in Istria and Croatia.

The author of the paper proposes forming of a local «tourism cluster» in the Labin-Rabac destination, taking into consideration its forming according to the spatial criterion.

«The cluster zone» would comprise the geographic area of the town of Labin with its settlements, including the largest settlement Rabac, municipalities Kršan, Raša, and Sveta Nedjelja, located on the eastern coast of the County of Istria.

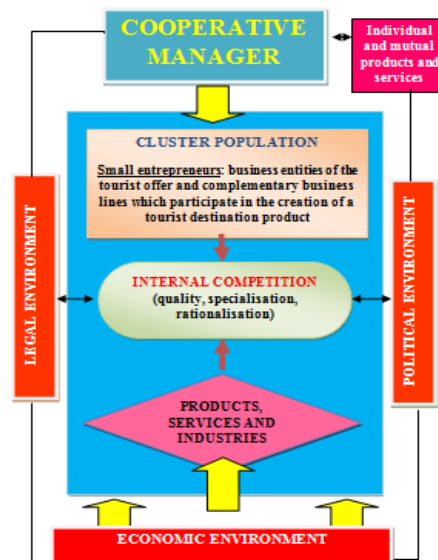
Target groups in the founding of the Labin-Rabac destination tourist cluster, i.e. «cluster population» are small entrepreneurs – business entities of the tourist offer and complementary business lines which participate in the creation of a tourist product of the destination, i.e. which have an active part in tourist development. These are: companies, craftsmen, individual salesmen and others who operate in selective forms of tourism. A tourist cluster would gather and homogenise small entrepreneurs in tourism and catering industry in this geographical area, but also all the small entrepreneurs who could contribute to tourist development of the destination, i.e.

private renters, peasant farms, small hotel owners, caterers, restaurant owners... A tourism cluster as such represents an open system because cluster population can be comprised of various entities, such as accommodation and catering facilities, travel agencies, private renters, etc. Small entrepreneurs pooled in a tourist cluster will generate synergic effects in relation to their environment. In short, «cluster population» of a tourist cluster of the Labin-Rabac destination consists of all small entrepreneurs registered in the activities of providing services of selective forms of tourism and those who offer valuable tourist attractions in this area. The «accompanying services» in a cluster are all the institutions, associations and companies which provide a kind of a service to the cluster, such as public institutions, marketing agencies, educational institutions, labour market institutions, etc.

## 6. GENERAL MODEL OF SMALL ENTREPRENEURS' TOURIST CLUSTER IN TOURIST DESTINATIONS

Based on the obtained research results in Labin-Rabac tourist destination, under the assumption that all small entrepreneurs in Croatian tourist destinations face similar problems which reflect in insufficient competitiveness level, high business costs and lack of financial resources for private investments in the quality of their products and services, new products and services, innovation and enrichment of their tourist offer, the author proposes a general small entrepreneurs' cluster model for Croatian tourist destinations as the basis for small entrepreneurship development and increase in competitiveness of its members and destination as a whole.

Chart 2: **General model of small entrepreneurs' tourist cluster in tourist destinations**



Source: Author's creation

It is proposed to form a local «tourist cluster», in terms of establishment according to the spatial criterion. In its forming process, it is necessary to distinguish four basic stages:

1. Determination of the «cluster zone» in order to determine the spatial scope of the cluster,
2. Identification of a group of entrepreneurs of «cluster population which offers groups of goods and services in the scope of their activities, and which constitute the «cluster core» and «auxilliary services».
3. Analysis of connections and relations between entrepreneurs in a cluster and connections between clusters and other entities in its immediate environment, and
4. Determining of organisational structure of a cluster.

Forming of a general cluster model is proposed in the legal form of a cooperative as the most acceptable organisation form in order for all of its members to have equal rights and obligations, but also to enable using pre-accessing EU funds. A cooperative represents a volunteer association of cooperants in which each member participates directly and who, by conducting collective business activities according to the principle of mutual assistance improves and protects its economic and other professional interest, with the purpose of gaining collective and personal profit of cooperative members in accordance with the law and rules of the cooperative. (Decision on the Proclamation of the Cooperative Act 36/95). Within the meaning of the Cooperatives Act, a cooperative member represents a natural person who, via cooperative, completely or partially conducts business activities by the cooperative, i.e. a person who sells his/her products and services through the cooperative, procures products and services, or uses services necessary for his/her business, or in another way directly participates in the fulfillment of objectives for which the cooperative was founded. (Ibidem).

Founding of a cluster in the form of a cooperative has also been subsidised by the government, as well as using resources from the EU funds. The «Operative Plan of Stimulation of Small and Medium-Sized Entrepreneurship for 2010», i.e. the project called «Clusters», covers some of the expenses for the foundation of clusters. (Ministry of Economy, Labour and Entrepreneurship of the Republic of Croatia, 2009). Covering of expenses in the foundation of clusters refers to professional advisory services, drafting a study of justifiability of cluster foundation, making of plan and programme of work, investment project, technical-technological feasibility study, professional training, other intellectual services, etc., and maximum amount per individual user can amount up to 50% of costs for the above-mentioned purpose – mostly up to KN 400,000. Foundation of a cooperative has been stimulated by the programme called Covering Expenses in the foundation of a Cluster, and it refers to professional and advisory services, services of a „Cooperative Entrepreneurship“ study, in which initial cooperative investments for foundation are covered in the amount of up to KN 5000, investments in material and non-material assets in the amount pf up to maximum KN 200,000 and intellectual – advisory services, maximum up until KN 50,000 per cooperative.



Main advantages of a cooperative in relation to other organisational forms should be pointed out. Namely, by pooling into a legal form of a cooperative, small entrepreneurs (cooperative members) enter the cooperative voluntarily (and leave it voluntarily), and participate in its work by equal membership investments. They do business according to the principle of mutual assistance and make decisions in a democratic way, taking into consideration that each member has one vote, and together they make an assembly, by which they equally participate in business decision-making. All decisions are made by a majority vote (unlike companies – corporations in which decisions are made only by majority capital owners). Unlike companies in which profit is maximised on the company level and in which profit belongs to the majority owner, in a cooperative – a company of persons, everybody participates equally in business activities and profit distribution. However, this profit is not allocated to benefit the cooperative alone, but to maintain investments in its work, and to achieve the greatest possible benefit for its members – small entrepreneurs. Cooperative members are liable for liabilities only in the amount of their investment, while, for example,

A cluster would have its «cluster manager», who would manage it and take care of common and individual members' interests. This is a person who would organise work, direct and ensure its performance, co-ordinate business and developmental plans turning them into actions, a person who would coordinate communication with cluster members and institutions in the cluster environment (OECD, Business Clusters: Promoting Enterprise in Central and Eastern Europe, 2005).

Benefits of small entrepreneurs in a «tourist cluster» of the destination can be summarised in the following:

- web design and regular web maintenance and information updates,
- coordination and reservation of accommodation and catering facilities,
- organisations of events for attracting possible tourists,
- free service promotions,
- participation on fairs,
- professional, educational, advisory assistance,
- collective adjustment to market needs,
- taking advantage of opportunities provided by market expansion,
- single marketing activities, promotion and collective participation in the creation of an adequate offer,
- improved valorisation of tourist attraction basis,
- greater influence on improvement of destination infrastructure,
- creating pre-requisites for improved business activities of small entrepreneurs
- collective minimisation of negative aspects of business activities, cost rationalisation,
- cheaper procurement
- creation of better entrepreneurial and investment climate
- collective response to institutional framework imposed by the local, regional and national government.

Forming of a small entrepreneurs' tourist cluster in tourism destinations will increase the competitiveness of small entrepreneurs, which will result in an increase of destination's competitiveness because cluster members will be stimulated by internal competition and cooperation to, primarily, increase the quality of their products and to specialise.

## CONCLUSION

Establishment of clusters as a form of strategic alliance of small entrepreneurs in Croatian tourism is an important element of progress of the national economy. By forming small entrepreneurs' tourism clusters in tourism and catering industry, and complementary industries on the level of tourist destinations, competitive advantages of small entrepreneurs will increase, and the tourist destination will differ from other destinations in its immediate and distant environment, creating more superior products and generating added values, consequently increasing its competitiveness level. The greatest benefits of small entrepreneurs' pooling into clusters for a destination and its population reflect in the strengthening of destination economy because of the growth of productivity and competitiveness of small enterprises, which affects the reduction of the unemployment rate for reasons of possible greater investments in new developmental projects. The strategy of a tourist destination cluster should take into consideration the principles of a successful local and regional developmental policy. It is necessary to consider establishing the greatest number of small entrepreneurs' tourism clusters possible on local and regional levels, which implies government interventions, in the sense of designing new programmes of subsidies for cluster founding, their promotion, education on the role and importance of clusters for national economy, informing of citizens and increasing awareness of entrepreneurs on positive effects which a cluster could have on Croatian tourism and economy as a whole. Forming of small entrepreneurs' tourist clusters in Croatian tourist destinations will provide their members with the possibility to co-operate. It will enable other participants improved co-operation, by which synergetic effects will be achieved through the chain of added value.

The most important benefits of members in a «tourist cluster» which should be pointed out are the following:

1. Overtaking of market niches for sales and supply – buyers and suppliers, and faster and cheaper business and developmental connections
2. Geographic concentration which results in reduction of transport costs,
3. Rational use of services by trained professionals on collective developmental activities,
4. Direct collective contacts, learning and exchange of new knowledge and experiences.

Complementary and collective activities of cluster members which should be pointed out are the following:

1. Co-operation in marketing, market research, logistics, supply and resource use,
2. Standardisation of the quality of products and services,
3. Insisting on innovativeness, development and introduction of new products and services,
4. Dispersion of risk in business activities and development,
5. A more competitive approach to local community programmes and projects in co-operation with the government
6. A more competitive approach to financing sources
7. Lobbying towards local (self)government units and the government

Pooling of small entrepreneurs into clusters in tourist destinations will stimulate co-operation and strategic partnerships among destination participants and eliminate the barriers which separate small entrepreneurs, associations and institutions from local population. Forming of a tourist cluster would diminish and, in the long run, eliminate disadvantages of destinations which have a negative effect on small entrepreneurs' business activities, while future competitiveness of tourist destinations will depend on efficiency of its tourist clusters.

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