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**COMPETITIVE  
STRATEGIES OF  
CROATIAN SMALL FAMILY-  
RUN HOSPITALITY AND  
CATERING ENTERPRISES**

**ABSTRACT:** The subject of this paper is examining ways of creating strategic competitiveness in Croatian small family-run catering enterprises. Competitive advantage is necessary if the enterprise wants to survive on the market. Selection of a business strategy is an important factor because a company's positioning is determined by profitability that can be above or below the industry average. Economic reality of the largest number of the world's economies is characterized by domination of family-run businesses. This is followed by the growing interest in determining the importance of family-run businesses to national economies, the ways of their participation, and finding problems which they have to deal with. Family entrepreneurship represents a special area of small entrepreneurship in Croatia. This work presents core characteristics of entrepreneurship

in Croatia, defined as family-run enterprise, along with its features, with special interest on some of the more important characteristics of family entrepreneurship. The main goal of this paper is to examine and analyze all the features of business strategies that generate a competitive advantage. An empirical online survey was conducted in 2015 among sixty Croatian small family-run catering enterprises. Over 40% of respondents believe that the government should facilitate an easier and more long-term administration for entrepreneurs. Research has also shown that the sustainability of competitive advantage lies in adapting to guest wishes.

**KEY WORDS:** competitiveness, competitive advantage, entrepreneurship, familyrun catering enterprise, small economy

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## INTRODUCTION

Remaining competitive is not only a question of success today, but the one of survival. As opposed to large enterprises, small businesses hardly endure the seasonal and other oscillations on the market (especially the tourism market). They are subject to financial crises, non-liquidity threats and core competence losses.

This work presents core characteristics of entrepreneurship in Croatia, defined as family-run enterprise along with its features, with special emphasis on some of the more important characteristics of family entrepreneurship. The main goal of this paper is to examine and analyse all the features of business strategies that generate a competitive advantage.

The purpose of this paper is to show that small businesses in tourism and hospitality need to have new core competences in order to survive and develop in the international and globalized environment, new bilateral agreements with competitors, new technologies and new sources of funds. Our hypothesis is that in order to achieve a sustainable business it is necessary to anticipate changes in the environment and encourage strategic behaviour.

Economic reality of the largest number of world's economies is characterized by the domination of family-run businesses. Family-run businesses in the past greatly contributed to the growth of European economy and played an important role in social development, decrease in unemployment (especially among the young) and investment in the human capital. Due to their nature of encompassing several generations, they reinforce economic stability and usually play a vital role in regional development in terms of employment and transmission of the know-how. According to new data by the KPMG agency, family-run businesses make up two-thirds of all businesses in the world. They generate 70% to 90% of global annual GDP. Between 50% and 80% of employees in most countries worldwide

are currently employed in a family-run business, while 85% of all start-ups were set up with family funds ([www.kpmg.com](http://www.kpmg.com)). Policies aimed at family-run businesses can encourage entrepreneurship and motivate European families to start their own businesses. Family entrepreneurship represents a special area of small entrepreneurship in Croatia. It is an important part of economy and the driving force behind growth. New estimations show that nearly 80% of small and medium-sized enterprises in Croatia falls into the category of family entrepreneurship ([www.kpmg.com](http://www.kpmg.com)). Those employed in these enterprises account for over 60 per cent of the total number of jobs in the private sector.

This paper was structured in six major chapters. The first chapter briefly introduces the topic of research and presents the paper structure. The second chapter elaborates the literature review about the generic competitive strategies and the sustainable competitive advantage. The third chapter analyses the competitiveness of small entrepreneurship in Croatia as well as the concept and significance of small family-run hospitality businesses. The fourth chapter describes the research method, design, population and sample. The fifth chapter presents the research findings. The sixth chapter summarizes key points of the paper.

## LITERATURE REVIEW

When specific competence is developed in such a way that it can hardly be imitated by competitors, we are talking about an enterprise that possesses core competences. These are crucial and differentiating competences as well as superior resources and superior knowledge with which it outstrips competitors in a specific business area (Hamel and Prahalad, 1994:30). Competitiveness therefore is not a one-time or isolated business situation. Achieving *competitiveness* (lat. *concurrentia* – concurrence, competition) is a continuous and multidimensional process aimed at finding new

ideas and solutions for a successful competition in the liberal market environment (Horvat et al., 2012:1). A company's competitiveness is a function of at least two sets of variables: *controlled* and *uncontrolled* (Tipurić, 1999:2). Controlled variables are consequences of conscientious internal efforts of key players in a company aimed at achieving better results than direct competitors and maintaining a sustainable competitive advantage. Uncontrolled variables, on the other hand, represent the national, regional and local industry conditions. The methodology of measuring competitiveness at the micro level consists of analysing specific indicators related to the market segment in which a specific enterprise operates and its market share. Also, according to Lovrinović, Mikulić and Rajh (2008:604), significant indicators of competitiveness are also: profitability, sales flows in the domestic and international markets and the assessment of the company's long-term sustainability and development in the local, national and international competitors' environment.

Long-term success cannot be built on instruments, aids or techniques used at a high level by more or less everyone. It is necessary to be different and show more competitive advantage. Core competences comprise knowledge, skills and value systems and are related to the level of comprehension (Kralj, 2015). Different challenges demand different managerial competences and new knowledge and employee education. According to Horvat, Perkov and Trojak (2012), a company has competitive competence if it manages to achieve a specific advantage by which it exceeds its competitors, but is also able to respond to the business challenges that will appear on the markets in the future.

### Competitive strategies

Every enterprise seeks to construct its own strategic approach in line with internal conditions, industrial environment, macro environment and the supranational megatrends. The fundamental attitude is: *to stay one step ahead of the competition*.

Combining the selected type of a *strategic advantage* (more affordable or different than others) and the *strategic objective* (wider product range and market or specialised supply and niche local market), leads us to Porter's three types of generic competitive strategies. The strategies of Cost Leadership and Differentiation seek to find the competitive advantage in the wide range of industrial segments. The Focus strategies concentrate on achieving the competitive edge within a small segment.

There is a lot of discussion in professional circles (Bordean et al., 2010) about whether a company can be different and affordable at the same time. The Focus strategy on solely low cost and without a differentiation model is very rare in the hotel industry. A company applying the cost-focus strategy has a narrower range of activity. Hotel brands, such as Fairfield Inn, easy Hotel, Etap and Motel 6 do not offer more than basic facilities. Management of these companies is excellent in keeping costs at a minimum. Owing to their competitive competence they can maintain low prices and attract guests on a budget (Bordean et al., 2010). Nevertheless, focusing on differentiation is very frequent in the hospitality and catering industry. Thus the Four Seasons and the Ritz-Carlton concentrate on elite guests with specific demands, and Burj Al Arab on royal family members, celebrities and wealthy industrials.

### Sustainable competitive advantage

The wealthiest investor in the world, Warren Buffet, in an interview for The Motley Fool answered without hesitation that the most essential characteristic of a company he would consider investing in was sustainable competitive advantage (SCA)! The key to successful investing, he said, wasn't the assessment of influences an industry would have on a society and how much it would grow, but an accurate assessment of competitive advantages of a company and their sustainability.

According to Thompson et al. (2008:7), a company achieves *sustainable competitive advantage* when the

target customers opt for its products and services rather than the competitors', and when these customer preferences are permanent. SCA is the foundation of a company's business activities which are unique or hold a quasi-monopoly. Achievement of sustainability demands that a company possesses limitation tools hindering competitors to imitate its corporate strategy (Porter, 2008:37). Despite the difficulty of sustaining competitive advantage, hotels are aiming to create the advantage by developing resources and competences (Enz, 2011). This usually means that a hotel can offer something that its competitors cannot or features a characteristic that its competitors lack.

According to Udovičić (2011), many countries in the EU and the world have realised the potential of small and medium entrepreneurship. SME is considered a vital component of the European industry. In certain industrial areas, such as furniture manufacturing, textile and civil engineering they account for up to 80% of the total number of jobs. SME is the fundamental platform of entrepreneurial skills and innovations and contributes significantly to the economic and social cohesion of domicile societies (Maličić Veić, 2012:33).

### **SMALL ENTREPRENEURSHIP COMPETITIVENESS IN CROATIA**

With only 61% of relative volume of GDP per capita in the EU, Croatia is third least developed EU member state (behind Bulgaria and Romania), fourth in unemployment rate (behind Greece, Portugal and Spain) and has the lowest level of employment and business activity (Croatian Chamber of Commerce, 2013). On its path to creating a modern and contemporary country and effective economic conditions, it has ignored the needs of small and medium entrepreneurship for a relatively long time. Small and medium-sized enterprises (SME) in Croatia account for over 78,000 companies and 99% registered business

entities in Croatia. This sector is the driving force behind the national economy and generates fast and increased growth in the number of jobs and the number of entrepreneurs (Kersan-Škrabić and Banković, 2008:59). The SME sector participated with 67% in employment, 43% in export and 51% in total turnover in 2012. As the share of SME turnover in the EU is higher than 60%, Croatia still has a lot of room to improve (CEPOR, 2014).

After Croatian admission into the EU, its entrepreneurs faced fear from competition mostly due to lagging behind in terms of economic efficiency. Nevertheless, there were significant positive effects: access to a larger market, access to EU programmes, greater cooperation with companies from EU Member States (*best practices*) and different sources of funding. On the other hand, certain costs increased, such as investment in knowledge, innovations and technology. Croatian entrepreneurs now need to reinforce competitiveness, connections and cooperation. Each country employs its own measures of achieving its goals, and this is aided by the European Commission with its special programmes.

Survival and development of the Croatian SME sector on the common EU market will depend on the ability of successful competition and responding to challenges posed by the demanding market, new regulations and fierce competition. Croatian SME sector has faced the same development obstacles for several years. They are (CEPOR, 2014):

1. red tape obstacles (long-term and overpriced procedures to set up and liquidate a company)
2. legal inefficiency
3. long-term procedures in ownership registration
4. inadequate focus on entrepreneurial education
5. undeveloped non-formal means of funding the start-up of business endeavours.

The government of the Republic of Croatia encourages investments and grants non-refundable

incentives and crediting programmes to the SME sector. The Entrepreneurship Development Strategy 2013 – 2020 aims to increase the general competitiveness of this sector. The realisation implies the following five strategic objectives (Croatian government, 2013):

☞ *Enhancement of economic efficiency* – improvement of economic efficiency by greater investments in research and development, higher level of innovations, increase in exports and further development of business networks and connectivity.

☞ *Better access to funding* – development of various funding opportunities for SME entities and eliminating financial chasm for small entrepreneurship.

☞ *Promotion of entrepreneurship* – providing support to start-ups, growth in the number of active enterprises and strengthening institutional support to entrepreneurs.

☞ *Enhancement of entrepreneurial skills* – providing support to the development of SME by bolstering their management, introducing and developing a greater number of highly qualified employees and supporting lifelong learning.

☞ *Better business environment* – advancement of achieved development by eliminating red tape difficulties and facilitating business activities.

With the purpose of evaluation and control, for each of the strategic objectives there are measures and indicators. Entrepreneurship is a global phenomenon; therefore, a lot of countries are developing an infrastructure to support entrepreneurial endeavours. SMEs dominate in trade, hospitality and catering (restaurants), and they are also an important factor in development of the industrial sector, exponentially influencing the economic growth of EU countries (Perkov, 2013). Small family-run enterprises represent the most popular and most frequent form of business ownership and management in the world. Before the emergence of joint stock companies (at the turn

of the 19<sup>th</sup> century), family business was practically the only form of company organisation. The oldest family company Takenaka from Japan, was founded in 1610.

The Center for Family Business at the University of St. Gallen in Switzerland published its *Global Family Business Index*. The index ranks largest public and private family companies and shows their importance in the global economy. Cumulative revenues of these companies for 2013 were \$6.5 trillion and they employ 21 million people. Half of them are from Europe, while 24% is from North America. Slightly more than half are publicly listed, while 48% are private. On this prestigious list, Croatian leader Agrokor is ranked 271<sup>st</sup> as the only company from the region, along global leaders such as Walmart, Berkshire Hathaway, Ford, BMW, Ikea or Heineken. Thomas Zellweger from the University of St. Gallen concluded that family firms are thus a future oriented way of organizing economic activity, and the firms on the list may tell us how this is best achieved. European family businesses account for 1 billion Euros in turnover, i.e. 60% in turnover of all European enterprises and comprise 50% of the EU's GDP. The employ over 60 million people (www.kpmg.com). According to data from the annual publication on family-run businesses for 2014 published by Ernst and Young, 85% of all European companies are family-run and they account for 60% of jobs in the private sector (European Parliament Resolution, 2014).

### The concept and significance of small family-run business

A family-run enterprise is a business in which at least two family members actively participate in operations and is in the majority ownership of the family. The Center for Family Business defines family companies as those where a family has a controlling share. However, there is no legally binding, concrete, simple and harmonised definition of family companies identifying these types of business Europe-wide. Croatia also does not offer an official definition of a family-run

business although it is estimated that 50% of all jobs are created in this sector and the businesses are run by the members of the first generation owners (Kuštro, 2015). The Croatian legal framework recognises family-run businesses in agriculture, hospitality and craftsmanship as one of the possible legal business entities within these sectors.

In October 2012 the Centre for SME Development Policy (CEPOR) encouraged a dialogue about the significance of family-run businesses in Croatia. The issues faced by family businesses in Croatia are not current enough and it was recommended that a statistical monitoring of family-run enterprises be introduced. Likewise, CEPOR suggested a definition of family-run businesses to be adopted: A family-run enterprise is a business in which the majority vote is held by the founder or person who bought the company and their immediate family members, which is managed by at least one family member and in case of a listed company the founder/owner of part of the company with their family members and heirs holds at least 25% of decision-making rights (Alpeza and Peura, 2012).

It is estimated that between 70 and 80 per cent of the total number of companies in Croatia falls into the category of family business and that they employ around 50% of the total number of employees (www.kpmg.com). They claim their main challenges to be the decrease in profitability and increase in operating costs, as well as the growing competition. In the area of most desirable changes the frontrunner is the reduction in tax rates (50%), reduction of costs of employee salaries (44%), easier access to sources of funding (34%) and a more flexible occupational legislation (25%). Family businesses are focused on long-term sustainable efficiency and invest in development even in times of crises (e.g. Agrokor, Atlantic Grupa, Orbico, Rasco or JGL). According to Škrtić and Mikić (2009) they need to decrease operating expenses, make more investments in innovations and development of new products and services, find new attractive markets and distribution channels and increase the quality of their business activities.

One of the key problems is the transfer of ownership and management. In only 30% of family-run companies the ownership and management is taken over by the next generation (Alpeza and Peura, 2012). Encouragement of ownership and management transfer to the next generation is still an increasingly significant issue (www.kpmg.com).

### **Specific features of family-run hospitality businesses**

Small family-run hospitality companies are highly flexible due to a greater trust among family members and can easily adapt to changes in the eco-social environment. At the same time longer presence in market niches enables these companies to stand out in identifying new opportunities and innovations. The reasons of their specific nature are the ways of setting up business as well as psychological and sociological factors. They commonly do not spend what they earn and are extremely reasonable when it comes to investments. Prejudice and cultural obstacles have adverse effects on their development. Apart from ethical values, their development significantly relies on the mobility of people and their education (Maličić Veić, 2012:18).

The small enterprises are aware that employing a high-quality staff with appropriate skills is the key to success. As much as 33% of entrepreneurs in Europe are concerned about their abilities to employ and retain high-quality personnel. It is not surprising, therefore, that there is a growing trend of "War for Talent" (www.kpmg.com). Small Croatian family caterers should dedicate more time to their further education and familiarisation with management skills. Market analyses, growth or decline forecasts for the next several years, feasibility studies of specific projects or own capacity analyses are rare. Today when information technology is a part of everyday life, there are tools developed to enable a high-quality analysis and growth forecast based on specific parameters. The specific nature of small family-run hospitality business comprises three

main forces in effect at the same time: family connectivity, short-term existential motives and long-term ownership motives.

Considering that foreign citizens, as well as tourists and business people frequent hospitality companies in tourist destinations, we can say that this business activity has an exporting nature (the so-called *invisible export*). Commonly hospitality service cannot be separated from the place in which it is physically provided. According to Article 12 of the new Act (2015) a hospitality business is preparation and service of food and beverages and provision of accommodation services, i.e. preparation of food and beverages for consumption at a different place with or without service (in a transport vehicle, at events or similar) and provision of food and beverage (catering). Thusly defined hospitality industry, including restaurant management, entertainment and transport services faces strong competition. This is why hoteliers and caterers need to carefully examine their strategic choices in order to create and maintain competitive advantage. In Croatia today there are 350 small family-run hotels. In Austria 10,000 family-run entities of winter and continental tourism comprise 70% of total accommodation capacity, and in Italy 23,000 entities comprise 50% of total accommodation capacity. Small family-run hotels in Croatia account for over 30% of the total number of hotels. The return on investment per hotel room is between 50 to 200 thousand Euros with low return rates and high investment risk.

## RESEARCH METHODOLOGY AND SAMPLE ANALYSIS

This chapter describes the research method and design, population, sample and instruments. We used secondary and primary sources of information. Secondary sources included domestic and foreign scientific and professional literature, as well as relevant online databases. Primary information

sources have been obtained through empirical research of competitive strategies in Croatian small family-run hospitality enterprises.

Using online service Google Forms and email, qualitative research was conducted during November 2015 on the sample of 60 respondents from Croatian small family-run hospitality enterprises (Figure 1).

Key methods used in the conducted research include logical methods. Particularly the methods of analysis, synthesis, deduction and comparison were applied from this group of methods. Mathematical and statistical methods were also applied in this paper. The questionnaire consisted of 12 closed format, multiple choice questions (responded could opt for only one answer). 55% of the respondents were male. Most of the respondents (35%) were aged 41 to 50 years old. According to their company position, most respondents were owners and directors of the company (40%). Almost half of the respondents' educational level was secondary education (46.7%). According to the type of company registration, the dominant type (48.3%) was limited liability company. Half of the companies employed 6 to 15 people.

## FINDINGS

This chapter was designed to present the study results and evaluate findings in a way to test the stated hypothesis. Respondents answered 12 questions about small family-run company management aimed at researching their core competences and sustainable competitive advantage, the role of government, key business changes and advantages and disadvantages of family-run entrepreneurship in Croatian hospitality industry. For purposes of this paper we analysed the answers to only six questions (Figure 2). The Figure shows that 40% of respondents consider the "*provision of top quality service*" to be the key competitive advantage of a

**FIGURE 1. RESPONDENTS' PROFILE**

VARIABLE	STRUCTURE (%)	VARIABLE	STRUCTURE (%)
<b>Age</b>		<b>Sex</b>	
Up to 30	25	Men	55
31-40	20	Women	45
41-50	35		
Above 50	20		
<b>Company position</b>		<b>Type of business entity registration</b>	
Owner and director	40	Limited liability company	48.3
Owner	26.7	Craft business	31.7
Director	13.3	Farmstead	8.3
CEO	5	Family farm	10
Manager	10	Other	1.7
Other	5		
<b>Level of education</b>		<b>Number of employees</b>	
Secondary	46.7	Up to 5	28.3
Short-cycle tertiary	25	6-15	50
Tertiary	23.3	16-30	16.7
Master	5	31-49	3.3
Doctoral	–	Above 50	1.7

Source: Authors

small family-run enterprise. This is followed by the “*quality-price ratio*” (25%) and “*recognisability and originality*” (23.3%). Other responses are much less represented.

When it comes to the sustainable competitive advantage variable a vast majority of respondents (74.6%) consider the most important the “*adaptability to guest needs*”. This is followed by “*development of new products and services*” (10.2%) and “*learning and development of employee competences*” (8.5%). Other responses are not significantly represented. According to the third variable, small family caterers and hoteliers consider that the government should mostly

support them by “*simpler and more long-term legal regulations*” (41.1%), which will encourage their level of ambition and enhancement of competitiveness. This is followed by the need for “*more favourable incentives and crediting options*” (37.3%) and a “*more effective administration*” (10.2%). The entrepreneurs see a lesser government role in a “*more flexible occupational legislation*” (5%) and “*reform of professional and vocational education*” (3.4%). The fourth variable considers business changes undertaken by small family entrepreneurs in order to gain competitive edge. The research shows that most of the changes are initiated with the purpose of “*adjusting the*

**FIGURE 2. STRUCTURE OF IMPORTANCE OF SPECIFIC VARIABLES FOR SMALL FAMILY-RUN HOSPITALITY BUSINESS OPERATIONS; N=60**

VARIABLE	STRUCTURE (%)
<b>1. Key competitive advantage of the company</b>	
Provision of top quality service	<b>40.00</b>
Best value for money (quality-price ratio)	25.00
Recognisability and originality	23.30
Location excellence	6.70
Effective adjustment of supply to market trends	5.00
<b>2. Sustainable competitive advantage</b>	
Adaptability to guest needs	<b>74.60</b>
Development of new products and services	10.20
Learning and development of employee competences	8.40
Business process innovations	3.40
Specialisation in core competences of the company	1.70
Management professionalism and experience	1.70
<b>3. Role of government in family-run enterprise</b>	
Simpler and more long-term legal regulations	<b>44.10</b>
More favourable incentives and crediting options	37.30
More effective administration	10.20
More flexible occupational legislation	5.00
Reform of professional and vocational education	3.40
<b>4. Introducing changes to achieve competitiveness</b>	
Adjusting supply to meet new guest demands	<b>65.00</b>
Education of all employees	18.30
Marketing activities	10.00
Renovation of premises	3.30
Increase in capacities	1.70
Reorganisation	1.70
<b>5. Advantages of small family-run hospitality enterprise</b>	
Dedication to work and commitment of family members	<b>73.30</b>
Speed of making decisions	8.30
Owner is also the manager	6.70
Faster adjustment to market needs	6.70
Clear corporate culture	3.30
Money saver in both good and bad conditions	1.70

### 6. Disadvantages of small family-run hospitality enterprise

Influence of emotion on business (difficulty separating family and business affairs)	36.70
Difficulty in business modernisation (limited funding resources)	30.00
Resistance to change (due to previous success or acquired habits)	15.00
Other	11.70
Higher level of exposure to market changes	5.00
Issues with selection of heir	1.70

Source: Authors

*supply to meet new guest demands*” (65%). This is followed by changes with the purpose of “*educating all employees*” (18.3%). Less represented are the “*marketing activities*” (10%), “*renovation of premises*” (3.3%), “*increase in capacities*” and “*reorganisation*” (each 1.7%). According to the fifth variable, the dominantly greatest advantage of a small family-run hospitality enterprise is “*dedication to work and commitment of all family members*” (73.3%). Family members are highly more likely to invest a lot more effort and enthusiasm than in case of working for a different employer. The second advantage in significance is the “*speed of making important decisions*” (8.3%). Other responses have vastly less significance. The last variable shows that over a third of respondents (36.7%) considers the “*influence of emotion on business, i.e. difficulty in separating family and business affairs*” the greatest disadvantage of a small family hospitality business.

The next important disadvantage is “*difficulty in business modernisation, i.e. limited funding resources*” (30%). Third in significance is the disadvantage of “*resistance to change*” (15%) mostly due to previous success or acquired working routine. Other responses have less significance.

### CONCLUSION

This paper presents core characteristics of Croatian small family-run hospitality enterprise. The main goal was to examine and analyse all the features of business strategies that generate a competitive

advantage. The main hypothesis was that the anticipation of changes in the business environment and encouragement of a strategic mindset are key foundations of sustainable business. From our recent study conducted among sixty Croatian managers in small family-run hospitality enterprises it follows that:

☞ “*Provision of top quality service*” is the key competitive advantage of a small family-run hospitality business for 40% of respondents.

☞ A vast majority of respondents (74.6%) considers the “*adaptability to guest needs*” the most important factor in sustainable competitive advantage.

☞ Over 44% of respondents believe that the government should facilitate a “*simpler and more long-term administration*” for entrepreneurs.

☞ Most business changes initiated by entrepreneurs have the purpose of “*adjusting supply to meet new guest demands*” (65%).

☞ Over two thirds (73.3%) considers “*dedication to work and commitment of family members*” to be the greatest advantage, while over a third of respondents (36.7%) considers “*influence of emotion on business*” the greatest disadvantage of a small family-run hospitality business.

A greater focus on the facilitation and incentives for long-term development of family-run businesses and the survival of start-ups should enhance and increase efforts at the EU level. Considering the limitations which derive from

inadequate number of respondents, the results of this research need to be taken with a grain of salt, i.e. they should not serve as the basis for making general conclusions about Croatian small family-run hospitality enterprises. However, the results are quite indicative and statistically reliable for deeper understanding of business activities of these companies in a Croatian environment. In conclusion, this research might deserve an expansion with a larger sample in the future in order to make strong and general statements about small family-run hospitality businesses in Croatia as a tourism destination and a member of the EU.

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