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## **SUBJECTS OF PRIVATISATION IN CATERING AND TOURISM AND THE DEVELOPMENT STRATEGY OF THE REPUBLIC OF CROATIA**

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After the first phase of privatization - transformation of ownership - the ownership structure in catering and tourism has been established with the dominant share of the State funds (The CPF and The PF) and of small shareholders. The present ownership structure cannot survive as incompatible to market economy. The lack of the development strategy and privatization strategy are unfavourable for the optimalisation of the ownership structure.

However, it is possible to consider some process changes in respect to the subjects of privatization. The CFP will gradually disappear and the number and share amount of small shareholders will decrease considerably. New forms of private capital will appear - holding companies, family and individual capitals of different size and organization. From the aspect of needed strategy, it is necessary to accept the dynamics, aims of privatization and the increase of foreign capital. Catering and tourism need to be adapted for further privatization (recovery and reconstruction).

In respect to the optimal ownership structure and possible strategic interests (investment possibilities, Diaspora, small shareholders) market rules and the main role of the State in further process of privatization must be considered.

Key words: subjects of ownership, privatization, strategy

### **INTRODUCTION**

Catering and tourism, viewed through the process of privatization, are of strategic importance to the Croatian economy and society.

The several, below listed, characteristics are sufficient to underline that importance:

- great property value\* of cca 4 bn DEM. (Agencies included) that is nearly 15% of the entire property value of Croatian companies
- the revenue of 1,4 bn DEM. in 1994 (being 50% of earnings in 1990) and currency inflow of about 1,0 bn DEM\*\*

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\* Data, CFP, Zagreb, June 1995.

\*\* Research: "Attitude and Consumption of The Market in Croatia", Thomas 94.

- the potentials and specifics of the "invisible" exports of goods and services
- the specific importance for the raising of the living standard level in the touristic regions
- the potential rapid integration into the world's trend in tourism growth rate\*\*\* (5,5%) and currency inflow (9,6%)\*\*\*\*
- the possible contribution to the necessary export orientation of Croatia etc.

Therefore, it is understandable that the subjects of privatization, the actual ones as well as the future ones, in the overall expected development strategy stir-up relevant interests and seek the possibilities of ownership reconstructing in Croatian catering and tourism.

## 1. THE RESULTS OF TRANSFORMATION - SUBJECTS OF THE FIRST PHASE OF PRIVATIZATION

Based on social property<sup>1</sup> and the goals of transformation process, which were directed to defining the owners (owner's rights), the first phase of privatization in Croatian catering and tourism revealed characteristics which within the content of this Discourse, may be pointed out as important ones for the transformation program and the strict ownership structure.

### 1.1. *Important characteristics of the transformation process in catering and tourism*

The process of transformation shows characteristics more or less similar to those that denote the overall economy (static evaluation, slowness, dubious position of small shareholders, lack of capital inflow...).

But, regardless of the similarities and more or less distinct features of the transformation process, it is necessary to point out the following:

- a) large number, great value and great worth dispersion of companies
- b) location of the hotels and the political war influence
- c) lack of capital inflow

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\*\*\* World Council For Travelling and Tourism, *Gospodarstvo*, No. 69, March, 1995., p. 82

\*\*\*\* WTO, *Compendium of Tourism Statistics*, Madrid, 1994 (percentage for The Mediterranean)

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<sup>1</sup> Opposed to other countries in transition (standard State ownership) social property demanded "a step more" (a pre-step) in the process of privatisation

**a) Large number, great value and great worth dispersion of companies**

The Croatian Fund for Privatization issued, till June 15, 1995, 206 decisions for the transformation of companies in catering and tourism, their capital amount totaling to 3,8 bn DEM. and being, even, 16% of the aggregate capital amount of all transformed<sup>2</sup> companies in Croatia. Not considering the objectivity of the static evaluation method, it is a fact that during the recent years, the extremely worthy property and the social capital show the unproportional contribution to GNP, totaling through the years as follows: (1990 - 6,64%; 1991 - 1,62%; 1992 - 1,90%; 1993 - 2,37%; 1994 - 3,64%<sup>3</sup>). As the results in 1995 are expected to be on the level obtained in 1993, companies in catering and tourism are challenged to activate the existing capital respective to its market and social functions. The primary task is the speeding-up of the process of privatization. There are numerous reasons for the pointing out of this process, mainly for the needed fresh capital inflow from private sources with all attributes and effects that capital brings in the sense of qualitative changes. Considering the importance and necessity of privatization the range of values is relevant. In terms of values, the hotels in Istria and The Kvarner Area are examples for the "serious capital undertaking" even in terms of world wide capital engagement: "Jadran", Crikvenica and "Imperial", Rab 130 ml DEM., each; "Riviera", and "Plava laguna", Poreč, "Liburnija", Opatija, about 300 ml DEM.

In the process of privatization and the potential engagement of the subjects - owners of capital, constitute different economic and juridical forms, the various sources of capital are expected. Thus, companies of different estimated values (30 ml, 100 ml or 300 ml DEM.) cannot identically pass through the privatizing process. Consequently, the dispute on the reconstructing of the actual capital of the companies, their flexibility in terms of organization and their total readiness for privatization arouses.

All these procedures are already partially present, rather for reasons of rescuing the financially weak sector and companies, than for reasons of the really accepted program orientation towards privatization.

**b) Location of the hotels and the political - war influence**

It may be concluded for reasons of this analysis, that catering and tourist sites are located on The Croatian coast and were, therefore, to a large extent exposed to great war risk. These circumstances have a double negative effect on the interest for the process of privatization. On one part, the domestic factors of privatization (The State, Boards of Directors, Management) approached the process as of second priority, compared with the integration of territories and all negative consequences caused by the war.

On the other part, the political situation of war were extremely destimulating for the potential subjects of the process of privatization, especially for the

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2 Privatization, No. 7/8, Aug. 1995, Report on The Process and Results of Reconstructing of Social Enterprises, No. 2 Table 7

3 Gospodarstvo No. 69, March 1995. p. 155

ones from abroad, and have influenced the entire territory of the country and, of course, companies engaged in catering and tourism.

### c) Lack of capital flow

The main characteristic of the overall process of privatization of the Croatian economy is the insufficient domestic accumulation and, for that reason, the economic pressure for turning to foreign capital inflow.

But, for various reasons, international capital has not shown a greater interest for engagement in Croatia.

It is necessary to point out for reasons of better understanding, that this is common to all countries in transition.

Thus, in the period 1985-1993, countries of Middle and Eastern Europe realized the inflow of 1,5%<sup>4</sup> of the entire foreign capital in the amount of 1.350 bn DEM invested throughout the world.

For Croatia the total inflow of foreign capital for the period 1992-1994 is 1,34 bn DEM, very frequently in form of equipment, meaning no fresh cash engagement.<sup>5</sup> Due to the negative results of the "country risk" analysis<sup>6</sup> reasons of war - but not only for this reason - capital inflow was rather less than in the comparing countries: Hungary (6 bn USD from 1990-1993), or The Czech Republic (2 bn USD form 1990-1993).<sup>7</sup> In the present Croatian environment even the specific paradox occurred in catering and tourism. As the most attractive branch of economy, it did not record any considerable capital inflow as the case is with: Tvornica cementa Koromačno, (in 1992-55 ml DEM), Pivovara, Zagreb (in 1994 41 ml DEM), Podravka (in 1994 - 35 ml DEM), Montkemija, Zaprešić (in 1993 - 34 ml DEM) or Elektrokontakt, Zagreb (in 1992 - 50 ml DEM).<sup>8</sup>

The importance of these investments becomes more significant considering the countries they originated from (ranked in terms of invested amounts: Germany, Italy, Austria, Switzerland and the USA<sup>9</sup>); countries of highest importance for Croatian tourism, but with no considerable investments for catering and tourism.

Furthermore, it is to be noted that the interest for companies engaged in catering and tourism existed but no results were achieved. One of the reasons among many, as well as the undefined program (strategy) in privatization.

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4 What Advantages to Foreign Campital, *Gospodarstvo*, No. 67, March 1995

5 The State is Still The Boss, *Banka International*, Zagreb, March/April 1995

6 See eg. "Euromoney" rating in the entire past period, Croatia is noted seriously below the first 100 among all the countries of the world

7 UN ECE, Geneve 1994

8 Data: CFP - February, 1995

9 Ranking in terms of invested amounts acc. to data from *Privredni vjesnik*, Feb. 20, 1995, p. 19

1.2. Ownership structure established through the transformation process

According to the official data of the CFP<sup>10</sup> there is no main difference in the ownership structure of the overall economy and in catering and tourism, although some variations exist.

Thus, for example, the ratio of the number of shares sold and those owned by The CPF, in all sectors of economy is 1,3 (9,142 bn DEM/0,886 bn DEM).

Table 1. shows the position of The Catering and Tourism Sector:

Table 1. Ownership structure established through the transformation process in the croatian economy and some sectors, (the end of 1994)

in ml DEM

sector of economy	number of co.	privatised companies	THE CFP	The pension fund	aggregate value
overall	2379	11323 - 51,6%	7193 - 32,7%	3444 - 15,7%	21960 - 100%
industry	717	4251 - 45,5%	3504 - 37,5%	1578 - 16,9%	9334 - 100%
sagricult.	198	869 - 55,8%	453 - 29,4%	226 - 14,6%	1540 - 100%
trade	379	1507 - 73,5%	316 - 15,4%	227 - 11,1%	2051 - 100%
tourism	171	2198 - 61,1%	898 - 24,9%	499 - 13,9%	3596 - 100%

Source: Ownership structure by Sector, Banka International, March/April 1995, p.45; percentages based on absolute amounts

It is evident that the degree of privatized companies in catering and tourism is higher than the average degree of privatized companies in the overall economy, and the share owned by The CFP and The Pension Fund is less than in the overall economy.

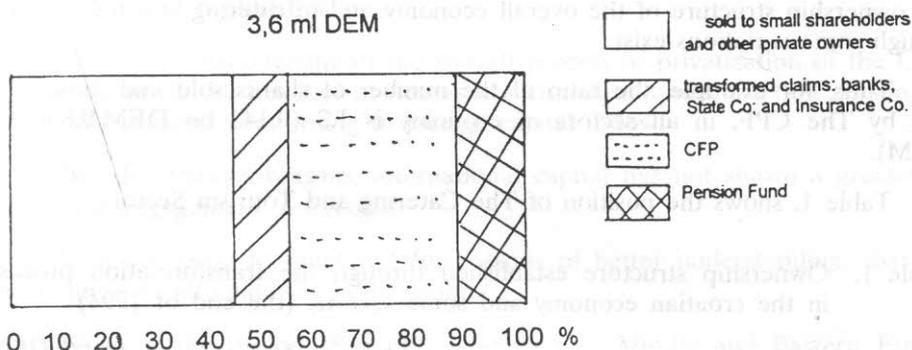
An analysis carried out earlier reflects more details of the ownership structure in catering and tourism.<sup>11</sup> Based on the sample of 139 companies (capital amount of 2.812 bn DEM) interesting results were obtained. The average estimated value of these companies is 20,2 ml DEM; in the industry sector, 13,5 ml DEM, in agriculture, 7,5 ml DEM and in the trade sector 6,1 ml DEM. The amount of sold shared of companies engaged in catering and tourism is 39% (37,4% in industry, 46% in agriculture, 61,8% in trade). Particularly outstanding is the amount of claims converted into share capital of companies engaged in industry, agriculture and trade is 3,15% 3,92% and 1,2%, respectively.

Considering this data it is possible to determinate with a high degree of exactness and to explain briefly the ownership structure of companies engaged in catering and tourism.

10 Privatizacija, No, 7/8, Table 8

11 Banka, No. 7, Zagreb, 1994., p. 27

Graph 1: Ownership structure in the Catering and Tourism Sector (June 1995)



Source: Privatizacija 7/8, Aug. 1995 Tables 7 and 8, Banka No.7, Zagreb 1994, p.27

Further analyses reveal some other features as well.

The portfolio under item "sold" includes those subjects of privatization actually engage the private capital (hotels located in the cities of Zagreb, Rijeka, "Novi", "Adriatic" Opatija....) on a quite different basis, (buying shares from the CFP, the Pension Fund and from small shareholders, (66000, as per CFP data for the first six months in 1995).<sup>12</sup>

The first group, although noticeably in minority has the real ownership position while the second group - the small shareholders, although markedly in majority, has a dubious position as a real owner.

In fact, the small shareholders only contracted the buying of shares with the CFP, so the amount of actually paid off shares is disputable, as well as the number of the contracted obligations that passed over to other subjects (mostly to those from the first group) and also how many unpaid shares came into the ownership of the CFP.

In conclusion, it is impossible to determinate the real share capital of small shareholders in catering and tourism (as well as in the overall economy). Under the optimal assumption that every small shareholder paid-off the first installment (in general 5%) and obtained the discount, their portfolio is passed to other subjects, and will be passed according to the present Legislature to the CFP.

It is, also, noticeable, that the proportion of the contracted actual share capital of the small shareholders diminishes with the increase or the companies estimated value. The portfolio of small shareholders in companies of smaller estimated value is up to 50% of the total amount of the equity; in companies

12 Privatizacija, No. 7/8 Table 8

of average estimated value, the respective share capital falls to 30%-40%, while in those of the highest estimated values ("Liburnija", "Babin kuk"... ) the amount of share capital of small shareholders is under 10%.<sup>13</sup>

Therefore, it is understandable that respective to the decrease of the share capital amount in the ownership structure, the economic interest for holding shares falls and results in abandoning the contracted obligations towards the CFP, and, moreover, resulting in selling (for a much lower price) to other subjects.

The transformed claims portfolio includes the share capital of Banks, State owned companies (especially IAN) and insurance companies (especially "Croatia"). Through these subjects are, in fact, state owned it is clear that indirect influence of the state through these subjects is present. The special interest of this group is different from connecting the business structure in banking and insurance to long term importance of foreign currency inflow (INA).

The CFP within its amount of share capital is the most important individual share holder in catering and tourism. This, of course, has its consequences. The state with its influence exercises through the CFP and the management structure is, in general, an inappropriate owner and is the sole preserver of the actual situation in the ownership structure. However, the overall economic and political surroundings should not be neglected, as well as the features of catering and tourism, earlier elaborated. This means that the state retained purposely the present situation awaiting for better circumstances and the acceptance of the development strategy that comprises the strategy of privatization as a basic component.

The Pension Fund is also a big individual shareholder in the Croatian tourism. Although the similarity to the CFP is obvious, meaning that the Pension Fund is the institutionalized form of state ownership, it is definite that the Pension Fund has special weight and some similarities in the organization to such types of funds in western market economies.

Thus, the Pension Fund, for example, sells its portfolio more scarcely than the CFP does, especially in the case of "blue chips", as the case is in tourism.

Based on the stated and in comparison with the official data (Graph 1.), it is possible to show a more realistic ownership structure in catering and tourism and the main features that characterize the dominance of the state.

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<sup>13</sup> According to the author's analysis and recent CFP data, June 1995.

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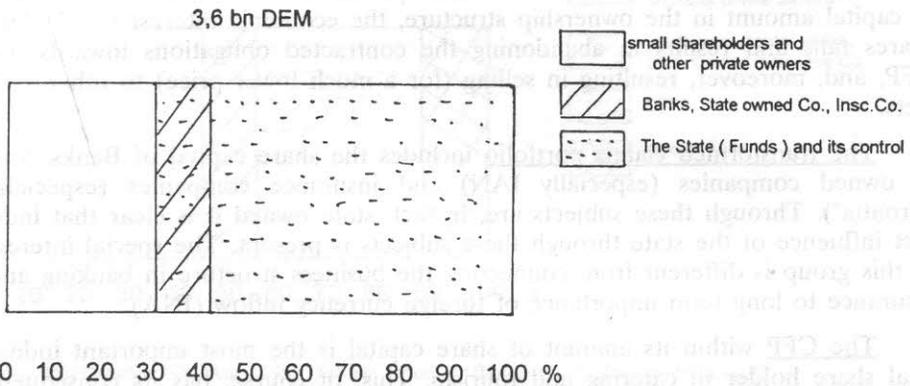
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Graph 2. Evaluation of the actual ownership structure in catering and tourism (June 1995)



Source: Previously stated data and ownership structure analysis

This graph is a sufficient illustration of the ownership structure, and the dominance in the owner's rights (managing, supervisor, appropriation). It is evident that the state, through its institutions will determine the privatization process in the future and the respective ownership structure. In this sense, the dominant owner at the present moment directly faces the choice of further strategy.

## 2. DEVELOPMENT STRATEGY IN THE REPUBLIC OF CROATIA AND THE SUBJECTS OF PRIVATIZATION IN CATERING AND TOURISM

The starting point is the fact that strategy is not present, especially when considering the contemporary development strategy as a science and a skill<sup>14</sup> connected with realizing the present and future realities. Such a connotation of strategy becomes important in overall transition process in economy and society, considering the specific present state, advantages and weaknesses, expected aims and the possibilities of each country, including Croatia as well.

In fact, some strategic elements become noticeable, especially as separate aims:

<sup>14</sup> eg. Kulić, S.: Science and Technology in The Function of Strategic Development of Society; (Znanost i tehnologija u funkciji strategije društva), in: Problems in The Economy Development and Economy System of Yugoslavia; (Problemi privrednog razvoja i privrednog sistema Jugoslavije) EI Zagreb, 1939 - 1989, Globus, Zagreb 1989., p. 633-648

- privatization and market economy development
- acceleration in economy development growth
- doubling the GNP until year 2000
- revitalization by war devastated areas
- return of the Diaspora, etc.<sup>15</sup>

Croatia still has not accepted the development strategy as a holistic and synergistic system of conditions, methods and goals.

It is logical to conclude that neither a strategy exists for the branches of economy, nor, in general, for companies, in the sense to survive and develop in the internal and external environment, that is changeable and jeopardized by strategic threats.<sup>16</sup>

For the purpose of this discourse, considering the absence of strategy, the dominant influence of the state as the owner, being the primary social factor of strategy and the comparative characteristics of the west economy ownership structure, it is needful to investigate the possible strategic importance of further privatization in The Catering and Tourism Sector, in respect to the subjects and factors of future ownership restructuring.

### *2.1. Possible potential subjects of privatization in catering and tourism*

The present ownership structure cannot be maintained. It does not comply to market economy criteria and is a direct obstacle to market economy and market institutionalization in the logical circle: private ownership - capital - entrepreneurship. It is, therefore, necessary to analyze the perspective of the subjects of the present ownership structure and what other new subjects can be included to this Sector of Economy.

#### *2.1.1. The perspectives for the subjects within the present ownership structure*

a) Small shareholders are expected to trend towards further decrease of share capital in The Catering and Tourism Sector, and of course in the overall economy, as they are a specific category of small owners, but not investors.

The fact that The Law on Privatization is expected to be enforced in the near future, it will alleviate the repayment of shares for the present shareholders. The number of small shareholders will increase by those who fought in the war, to whom the shares will be granted in the amount of about 2 bn DEM, for a number of 300.000 citizens. Thus the entire number of small shareholders will amount to 800.000 but only apparently, not showing the actual situation.<sup>17</sup>

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<sup>15</sup> See eg. The Report of The President of The Croatian Government, Hrvatski gospodarski forum - Zagrebački velesajam, daily news, Sept., 13, 1995.

<sup>16</sup> CF: Masmedia Business Dictionary, Masmedia, Zagreb, 1991. p. 465

<sup>17</sup> Data and prognosis of The CFP

But, one question arises: is the interest of the small shareholders to repay their bought shares or to sell them to other buyers at the most favourable price?

The individual living standard level, in the future will have an influence on the decrease of the number of small shareholders, and on their share capital as well, for reasons of not receiving dividends and other reasons, also.

Of course, in small less worthy but profitable companies, the number of well organized shareholders will survive, although this will not be the essential characteristic neither for the overall economy nor for its respective sectors.

b) For Banks and State owned companies the most important question is how and when will their ownership structure be transformed in favour of the privatized portion and only then the matter of to what extent and in what direction will they engage the funds will become of interest.

The Banks' taking over the amount of 811 ml DEM worth of shares of the Croatian companies<sup>18</sup> is for many, the reason for criticizing both banks and the process. Therefore, it must be underlined that, in general, this represents two cases of taking over large portfolios on part of the Banks:

- the first case - transforming claims into shares and expecting long-term repayment by selling the shares at their price, which covers the transformed claims. This case is typical for catering and tourism.
- the second case - taking over of bankrupt client companies with the aims of recovery by the Banks' support and selling under the best possible conditions for the repayment of past debts.

The above stated was promoted more under economic pressure than voluntarily and the taking over of the portfolios in the present situation of monetary restriction and insolvency resulted in the Banks' efforts to capitalize their investments in these companies. Simultaneously, the Banks' necessity to own portfolios in certain companies or sectors of economy, directly or through various methods of financing, is reopening.

Therefore, two parallel processes are to be expected: the process of selling the less worthy (of higher risk) portfolio and thus improving the financial potential on one side, and with time, buying those portfolios of more perspective and of lower-risk, on the other side. Under such circumstances and in different forms the share of Banks in catering and tourism will, for example, grow due to currency inflow. State owned companies will operate under similar circumstances, notwithstanding the degree and duration of their privatizing.

c) The Pension Fund in accordance to its functional elements will hold its portfolio in this Sector for a long time. Two elements are important to support this allegation. Firstly the ratio between the contributors and the users is more and more unfavourable, as shown in Table 2.

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<sup>18</sup> Privredni vjesnik, July 18., 1994. p. 18

Table 2 Active contributors /the employed/ and the users /the retired/

*in 000*

year	employed	retired	ratio
1983	1,456	475	3,09
1989	1,567	569	2,75
1991	1,303	646	2,02
1994*	1,008	752	1,34

\*Prognosis

Source: Report on Social Policy of the Pension and Social Security Funds, Zagreb, Feb. 1995  
 (Army and police not included)

It may be concluded, that the present layout of financing is declining with bad prognosis, for the rates are to be lowered and it is expected that the number of the retired will increase rapidly as the result of restructuring the economy.

Another interdependent feature is the tendency that the Pension Fund overgrows into a self-financed institution. The amount of shares passed over to the Pension Fund is the base for such a change. The variety of values in the portfolio will force the management to sell certain shares and buy others.

The proposal that the Pension Fund and the CFP interchange certain portfolios, in the sense that the more valuable come into the possession of the Pension Fund, especially the catering and tourism portfolios, is very interesting, in the scope of this discourse. It comes out that the Pension Fund will, probably, hold these portfolios for a long period and increase absolutely its share in tourism, confident in the profitability and long-term prospective of this sector.

The CFP as the presently largest individual owner is the main subject for the ownership restructuring and the most important institutional form, for promoting the Croatian development strategy in the process of privatization.

Firstly, if privatization is considered as strategy and respecting the "pressure" of the international financial institutions (IBRD - The Letter on The Development Policy, signed by The Government), then the strategic aims seem understandable, the aims being, to privatize 10% of The State's portfolio till the end of 1995, and 40% until the year 1996.<sup>19</sup>

Consequently, the CFP will lower its share on behalf of other subjects. But there is the question: if "Pliva" is considered as an strategic interest, as well as the 30 largest but unprofitable companies in the economy today, what about tourism? All relevant indicators of the past period (even the currency inflow during the war period) evidence that tourism is of strategic importance for the Croatian economy.

Therefore, there is no need in the period of transition to force the selling of companies in catering and tourism under slogans: "the only importance is to

<sup>19</sup> What are We Promising! Banka, No. 6. Zagreb, 1995, p. 30-32

privatize" or "the only importance is that the CFP capitalizes through selling the companies".

Such an approach indicates that the CFP (The State) will partially continue to hold the tourism portfolios, especially in larger resorts that are of special interest to the state or respective region.

### 2.1.2. The new owners in the sector of catering and tourism

Analyzing the possible changes in the ownership structure that may occur due to the interest and motivation for owning portfolios in tourism, it would be interesting to elaborate who are the future subjects that will buy the offered portfolios. The main characteristic of all new investors is that they will come into the possession of the portfolio, regardless of their organization. These new subjects with their capital, which is originally private, are the most important component in the process of ownership reconstructing. Some of these subject must be mentioned and briefly explained.

Groups of Private Firms are organized as Holding companies<sup>20</sup> or under joint management of the shareholders. Up to now, these groups formed in the first years of privatization were relatively scarce, because of the limited amount of capital in comparison to the estimated values of the tourist sites, among other reasons. These groups are now occupied with their present mergers and take-overs, and their serious engagement is expected in the near future, attempting to unite the production and trading sectors of their firms.

Institutional Investors<sup>21</sup> are for now, the only potential subjects in the changing ownership structure, in the Croatian economy and tourism. It is necessary to bring respective laws, on one hand, (Lay on Securities, Law of Privatization, Law on Investing Houses) and on the other, there is the question of the source of funds, as institutional investors are, in the widest sense, houses that collect funds from individual investors and engage them in, mainly, long-term investments (securities real-estate...) and this, within the content is important. Finally, as another reason for better understanding of these subjects, as factors of the future period, are skillful employees trained for very complicated tasks of organizing and managing of these Houses.

But, considering the respective experience in the world and the Croatian market economy development strategy, the institutional investors are expected to take an important role in ownership structuring. This is especially meritorious for catering and tourism, considering its great property value, interest and profitability perspective.

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<sup>20</sup> The typical example of "AGROCOR", Zagreb, a private entity of 314 Croatian companies holding 23% of the total privatised social capital, Banka International, Sharks and Small Fry, May-June, Zagreb, p.40

<sup>21</sup> Acc.: Foley, B. J.: Capital Markets (Tržište kapitala), Mate, Zagreb, 1993, including Insurance Co., The Pension Funds, Trust Funds, Investments Houses

Family Capital that is being invested through the buying portfolios of some companies, is frequent in market economies. These investments are, in general, small and are to be engaged (or already are) respective to the amount, in smaller organizational and property entities of tourist sites.

Individual Capital, Both from individuals and legal entities, varying in organization and amount, and for different motives is being invested in companies' portfolios. Within this group, as specific, the so-called small investors may be pointed out that individually buy and sell shares, not rarely following the advice of specialized agencies, associations or similar firms.<sup>22</sup>

It is, of course, impossible to number all forms of potentially new subjects in the ownership structure in catering and tourism, mostly for reasons of the unlimited possibilities of capital investment and its combinations in respect to its origin and amount.

### 2.1.3. Subjects of ownership from abroad

From the point of the Croatian strategic development and the economy and the overall social transformation, the potential subjects and factors of privatization from abroad are of multiple significance, for two reasons, mostly:

- firstly, domestic accumulation is not present (not underestimating the potential of the formerly cited subjects but considering the values that are to be privatized in the future period).
- secondly, subjects from abroad include the Croatian Diaspora, whose returning to the Mother Land is certainly strategically important.

Furthermore, the capital inflow and subject-owners from abroad potentially bring in the strategic importance of new technology and other skills, managing and marketing etc., on the level of developed market economies, that Croatia is trying to reach in the shortest possible time.

At last, capital from abroad brings the potential of its origin in respect to the touristic voyages. This is very important for catering and tourism as Croatia will continually, as a small country, develop its tourism based on foreign guests.

Not going into detailed analysis, the below listed potential subjects are expected to be present, as a consequence of the ownership structure transformation in catering and tourism:

- individual capital differs in amount and organization forms, as well as domestic subjects. However, attention should be directed to the possible reality of capital inflow from multinational companies engaged in tou-

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<sup>22</sup> for example: The Swedish Association of Shareholders, The National Association Investing Co. (NAIC); mor in: Nallmenstan Skytt, Small Investors and Capital Market (Mali investitori i tržište kapitala, Zbornik: III International ŽSeminar (Međunarodni seminar) "Capital Market '93" (Tržište kapitala '93), Brijuni '93.

alism, which often implies the strategy of resource exploitation upon which moves to other sites (countries).

- family capital, that can considerably contribute to the improvement of the touristical supply offer, especially respective to the structure of hotels, by largeness.
- groups of private companies, individually or in various forms of organization with domestic capital are present.

Institutional investors from abroad, in all forms, should be considered separately. World-wide, institutional investors have grown into the leading investors and portfolio owners. For illustration purposes, it is estimated that Europe has nearly 8000 Investment Houses, with an average capital of 100 ml DEM each, while Houses in The USA, Europe and Japan together, are estimated to own 11000 bn USD.<sup>23</sup> With top know-how and developed research and investment "technology" these Houses are specialized in orientation according to the purpose and to the investment policy (branches), including, frequently territorial choices, as well. Therefore, there is no reason to expect that The Institutional Investors from abroad will overflow Croatia and, especially, in this content, its tourism.

But, their power, compared to the Croatian tourism portfolio and the anticipated greater profit rate in Croatia, compared to the interests and savings, as well as, to the yield in the country of the origin of funds, seriously indicates that such subjects will begin to appear in the tourism of Croatia.

### **3. REACHING THE OPTIMUM IN CATERING AND TOURISM OWNERSHIP STRUCTURE AND DEVELOPMENT STRATEGY**

It may be concluded from the above stated, that privatization and the increase of private capital invested in catering and tourism, invested either in present sites or new different entities of touristic supply, will change the ownership structure.

Catering and tourism with its subjects, viewed through the development started of The Republic of Croatia correlate with the general trend of the required strategy and with the specific trends within the Sector, also.

#### *3.1. Some general determinants in the privatization strategy*

The privatization process in its economic base is already deeply incorporated in the transition process of the Croatian society and it definitely remains

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<sup>23</sup> Estimated data till March 31, '93, The Financial Times, London, April 21; more on Institutional Investors, especially in respect to savings, in: Elstob, E. C.: Stocks and Institutional Investors (Burze i institucionalni ulagači), Zbornik: Capital Market (Tržište kapitala): o.c. p. 102-112

the main component of the development strategy. In this sense, the trends that characterize it, prevail.

For the purpose of this discourse, it is important to point out:

- the dynamics of the process in respect to the present results, the total socio-political and economic conditions and the need of speeding up; the privatization of the subjects, especially the biggest ones that are presently state owned, is very complex and requires time, but, however, may be a serious barrier to the overall changes within the society,
- the aim of further privatization which is not questionable in respect to the transition to market economy; in this case the possible trends determine the aim as a continuation of maximizing of State earnings (the budget) policy or as the finding of new private owners (in various forms) that may contribute to improving the economic indicators; seems that a certain degree of selection and combination of steps and methods in the privatizing process may have optimal results,
- the increase of foreign capital inflow, as the potential of domestic accumulation, will still in the future be insufficient for engagement into the process. Privatization prefers private sources of foreign capital in different forms and requires considerable respective improvements in the overall investment climate within the country, as well as, in the specific strategy with the emphasis on image build-up and encouragement in the field of investments. Naturally, privatization must consider a number of other elements (as social, regional...) and also the obligations resulting from the European and world economic and political environment, especially considering the financial factors.

### *3.2. Strategy determinants in the privatization of catering and tourism*

Considering the importance of privatization in this Sector for the overall Croatian economy and in the light of this discourse the determinants will be grouped and briefly elaborated.

#### *3.2.1. Determinants in the privatization of catering and tourism*

The privatization of catering and tourism includes all determinants elaborated in the privatization strategy of the Croatian economy (dynamics, aims, foreign capital inflow), although the ones that take into consideration the following characteristics cannot be excluded:

a) the value and potential of the Sector and the interest for it, that recognizes "blue chips" in the future Croatian economy; in other words, having in mind the need of speeding-up, the dynamics and the requirements of privatization in the overall economy, as well as in catering and tourism, it is necessary to consider its recuperation and restructuring, that is, the strategy of adapting to the process, as an inevitable one,

b) The rehabilitation of catering and tourism as the sector of economy that has suffered the greatest impact of the war and war risk; mainly it is in economic terms incompatible to rush into privatization of the extremely worthy and, in the future, the most profitable sector of the economy in the present conditions, with its losses, surplus of employees, worn out and depreciated equipment, and other defaults as results, either of the past period or the war with all its consequences; it would, therefore, be wise to ensure domestic or foreign source of finance in the recovery of catering and tourism, with the aim of maximizing the social effects, meaning to provide conditions for the particularly profitable businesses already in 1996,

c) The transformation of the ownership structure and organization of big companies in catering and tourism must take into consideration the following:

- sorting of those entities that by selling will not break-up the hotel complex, and will result in positive changes in the firm's capital assets,
- sorting and selling of separate and smaller, newly formed legal entities (companies with limited and unlimited liabilities), as independent organization wholes with inherited ownership structure; the gained earnings may be passed, proportionally, over to active owners or to the society itself; this should be combined with the writing-off of debts, particularly to those debtors who are shareholders in the parent company and who wish to convert their portfolio into cash money,

d) improving the management structure that is still more bureaucratic than professional because of its part in the ownership; such a structure in the management and supervising boards determines those decisions that are rarely in the interest of the companies themselves and their privatization strategy, but rather in the interest of the owner.

### 3.2.2. Determinants in respect to the subjects of privatization

Understanding the importance of catering and tourism, specific strategy trends are indispensable when considering the subjects of privatization.

Hereby, a part of the changing process in the ownership structure is conditioned by certain processes concerning the present owners and influence in a specific manner the catering and tourism structure.

Such processes are especially noticeable in the following examples:

- The Croatian Fund for Privatization will be closed by the end of 1999 and as consequence it will disappear as Croatia's economy portfolio owner,
- The Croatian Pension Fund and its strategy to remain the permanent portfolio owner,
- Banks, insurance companies and firms like INA (now controlled by the state) and their choice of the engagement policy in the ownership structure,

- the trend in the behaviour of small shareholders in respect to certain, humble, efforts in improving the living standard and social policy.

Following, the main strategic question in respect to the optimisation of the ownership structure is targeted towards the present major owner (the CFP) and the State, represented by the CFP as its specific institutionalized form.

In fact, from the strategic point of view, the freedom and the flexibility of the management in catering and tourism cannot be restricted. At the same time, it is the strategy itself, together with the aims, steps, methods and techniques and the performers, that must equally support and encourage the subjects of privatization which are of special interest to the Sector as well as to the society as a whole. Such an approach and the combination of the general trends for further privatization in catering and tourism with the trends in respect to the subjects, point out the following:

a) the disappearing of the CFP as the major owner should be under control and seriously supported (personnel, finance, organization) ensuring favourable conditions: - better investment climate, image strategy and encouragement for investments from abroad; - the choice of methods and ways that will promote the efficient and rational consumption of those funds that do not have immediate direct financial effects for the State and other large owners.

b) relations with the Diaspora, their investing and engaging in Croatian tourism. It is not recommendable accept the direct privilege policy in buying portfolios. As capital does not link the national privileges in respect to its inflow. Such approaches could produce negative effects:

- in rejecting for engagement in Croatia, even ore as the demand is extremely large, especially in countries in transition,
- in orienting of Croatia's private subjects for engaging funds in catering and tourism,
- in the increase of privileged investors, resulting in inefficient improvements within the Sector.

As the return of the Diaspora is of multiple strategic interest, it will be necessary to apply a wide specter of other measures and techniques for achieving their return. Steps in promoting activities should be considered.

c) the relationship with the small shareholders especially in those environments where, at the same time, they have a particular relationship with the company (owner, worker, supplier...). The anticipated changes in The Law on Privatization could find a partial solution for the small shareholders to remain permanently in the catering and tourism ownership structure.

All the above stated indicates the main characteristics in defining the strategy privatization determinants, in respect to its subjects and the optimization of the ownership structure:

First: it is an extremely complex process that due to various reasons needs to accept the strategy in the further privatization in catering and tourism.

Second: the process must obey market rules and the equal approach towards all subject, foreign and domestic, as well.

Third: the main role in the further process in privatizing and the optimization of the catering and tourism ownership structure, has the present major owner, i.e. the CFP, to say the State with its strategic policy enforces through the respective institutions.

#### 4. CONCLUSION

Based on the elaborated analysis, it is possible to conclude that the present ownership structure reflects all the characteristics of the first phase of privatization, with the dominant share of the State and small shareholders, Such a structure cannot survive as it is not compatible to the west economy ownership structure, with Croatia is trying to reach.

For the further privatizing process in catering and tourism and optimizing the ownership structure, a disadvantageous is the lack of strategy that would define the important aims, methods and techniques of the process. Some trends and features might be defined. This especially considers the disappearing of the CFP as the portfolio owner and the anticipated process of decreasing the number of small shareholders engagement.

At the same time potential subjects of further privatization in catering and tourism may be pointed out as well as the process of optimizing the ownership structure. Individual capital, varying in size and organization, holding companies, family capital, are the future major owners in this Sector.

The wished pace of the process, however, implies such a strategy that emphasizes the dynamics, aims and the increase of foreign capital inflow. For catering and tourism it is necessary to consider the need for their recuperation and restructuring and also the direct and indirect influences on the processes with the present ownership subject (the CFP, the Pension Fund, banks, small shareholders).

Respective to creating an optimal structure and possible strategic interests (investment climate, Diaspora, small shareholders), at the same time, the need to follow the market rules fully, and to treat equally the presence of all potential subjects arises, as well as the main role of the presently major owner (the CFP) being the State with its strategic interests and application through the respective institutional forms.

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Summary

SUBJEKTI PRIVATIZACIJE UGOSTITELJSTVA I TURIZMA  
I STRATEGIJA RAZVOJA REPUBLIKE HRVATSKE

Za hrvatsko gospodarstvo i društvo djelatnost ugostiteljstva i turizma ima značenje koji glede privatizacije poprima stratejsku važnost. Prvu fazu privatizacije - pretvorbu vlasništva - karakterizira veliki broj, velika vrijednost i velika disperzija vrijednosti poduzeća, lociranost poduzeća i političko-ratni utjecaj te izostanak priljeva kapitala. U formalnoj vlasničkoj strukturi pretežiti portfelj pripada malim dioničarima te Hrvatskom fondu za privatizaciju i Mirovinskom fondu, a značajan je i udio banaka, državnih poduzeća i osiguravateljskih društava. U stvarnoj vlasničkoj strukturi, međutim, HPP i MF kao institucionalni oblici države dominiraju s udjelom i do 90%.

Za daljnje vlasničko strukturiranje ugostiteljstva i turizma nepovoljno je to to nema strategije razvoja. Neki su ciljevi prepoznatljivi kao što su razvoj tržišnog gospodarstva, ubrzanje gospodarskog rasta, udvostručenje brutto društvenog proizvoda do 2000. godine. Strategije, međutim, kao holističkog, i sinergičkog sustava stanja, mjera, ciljeva i metoda još nema.

Postojeća vlasnička struktura ne može se održati. Ona je primjerena tržišnim gospodarstvima i izravna smetnja uspostavljanju logičkog kruga tržišnog gospodarstva i tržišne institucionalizacije: privatno vlasništvo - kapital - poduzetništvo.

Stoga je različita perspektiva subjekata postojeće vlasničke strukture. Mali dioničari, kao specifična kategorija malih vlasnika, ali ne investitora, očekivano će tendirati ozbiljnom ukupnom smanjenju udjela u ugostiteljstvu i turizmu.

Banke i državna poduzeća ponajprije moraju i sami promijeniti vlasničku strukturu. Sadašnje nastojanje da se uloži zbog likvidnosti prodaju očekivano će se transformirati u politiku interesnog pribavljanja portfelja.

Mirovinski fond će zbog elemenata svoje funkcije dugoročno zadržati svoj udjel u ugostiteljstvu i turizmu. Naime, MF tendira da preraste u instituciju autonomnog financiranja na temelju vlasništva vrijednosnih papira. Zato će MF zadržati portfelj u turizmu kao perspektivno profitabilnoj grani (nadprosječno).

Hrvatski fond za privatizaciju prodat će u narednom razdoblju pretežiti dio svog portfelja. To je i njegov osnovni zadatak u okviru moguće strategije razvoja i privatizacije. Iz stratejskih razloga HFP može i zadržati svoj portfelj, dijelom ili u cjelini, u poduzećima posebitog značenja.

U procesu privatizacije afirmirati će se i novi subjekti vlasništva u ugostiteljstvu i turizmu: privatne grupe poduzeća u jedinstvenoj organizaciji holding tipa, institucionalni investitori (potencijalno), obiteljski kapital i pojedinačni kapitali različite veličine i organizacije. Od posebnog značenja su potencijalni subjekti vlasništva iz inozemstva. Njihovo značenje proizlazi iz činjenice da domaće akumulacije nema i jer subjekti iz inozemstva podrazumijevaju i hrvatsku dijasporu.

Glede moguće strategije razvoja gospodarstva i djelatnosti ugostiteljstva i turizma nužno je prezentirati proces kao optimalizaciju vlasničke strukture. Taj proces mora uzeti u obzir relevantne ciljeve privatizacije (tržišno gospodarstvo - tržišno društvo), primjerenu dinamiku, ravnopravnost kapitala, značenje priljeva inozemnog kapitala (posebno od dijaspore) te ulogu države kao presudnog činitelja strategije.

Ključne riječi: subjekti vlasništva, privatizacija, strategija