

Zorica Krželj-Čolović

University of Dubrovnik
Department of Economics and Business Economics
E-mail: zkrzelj@unidu.hr

Franica Radić

Student
University of Dubrovnik
Department of Economics and Business Economics
E-mail: franica.radic@yahoo.com

STRATEGIC NETWORKING: THE CASE STUDY IN DUBROVNIK HOTEL INDUSTRY

Preliminary communication
UDK: 640.4:005]:338.48](497.5 Dubrovnik)
JEL classification: C10; P13; Z32
Accepted for publishing: October 31, 2019

Abstract

Hotel industry is considered one of the most important area in the economy because of its impact on the development of tourism. One of the development strategy is strategic networking. The most common reasons for strategic networking in hotel industry are financial, motivation to acquire and exchange knowledge and technology, competitive position and farmers motives. Forms of strategic networking are clusters, strategic partnerships, strategic alliances, cooperatives and associations. The purpose of this paper is to examine whether the hotel enterprises in Dubrovnik using a strategy of networking either vertically or horizontally. The aim is to examine which forms of networking hotel companies use as a development strategy in the area of Dubrovnik and which form of networks is most represented. Research results have shown that the most commonly used forms of strategic networks in hotel enterprises in Dubrovnik cooperatives and associations.

Keywords: *forms of strategic networking, hotel industry, case of Dubrovnik*

1. INTRODUCTION

Strategic networking must become an imperative in the hospitality industry. In hotel industry, strategic networking was used to achieve the following various functions of a hotel enterprise: marketing strategy, cooperation among hotel enterprises in a destination, obtaining resources, information and advice, and networking of activities between hotel enterprises and other entities within the network. Cooperation between hotel enterprises and other companies in tourism is closely connected to the destination development strategy. In most of the literature and researches authors believe that entrepreneurs aim at strategic networking activities to ensure competitive advantage, which means that networking offers a number of business advantages.

Since hotel enterprises do not have the capacity to provide an independent financing of innovative and development projects, they opt for strategic networking so as to deliver innovative products and services, obtain the necessary capital investment, accomplish credibility in the

tourism market, etc. Hence, strategic networking in the hospitality industry provides hotel enterprises with a variety of opportunities for further growth and development. Strategic networking in the business development stage of hotel enterprises reduces the risk of failure and offers numerous advantages otherwise hardly achievable. So, hotel enterprises team up so as to obtain the necessary resources and implement certain activities required to meet the growing demands of a customer, where it should be noted that networking is not static, but dynamic, which means that the development of hotel enterprises leads to the development of strategic networking. Strategic networking of hotel enterprises with other companies or economic and noneconomic entities can take many forms such as: clusters, strategic partnerships, strategic alliances, cooperatives and associations.

2. LITERATURE REVIEW

Strategic networking must become an imperative for hospitality industry. It seems that around the world more attention has long been attributed to the importance of strategic networking in tourism and hospitality (Augustin & Knowles, 2000; Chathoth & Olsen, 2003; Copp & Ivy, 2001; Lynch, 2000; Morrison, 2002; Pavlovich, 2003; Telfer, 2001). For Augustin and Knowles (2000) the cooperation between hotel enterprises and other businesses is closely connected to the destination development strategy. In the Telfer's research (2001) on the level of cooperation between the wine industry and tourism in the Niagara Region, he concluded that formal and informal cooperation and vertical and horizontal links exist between all sectors including agriculture, transport, etc.

According to Fombrun (1982), Davern (1997) and O'Donnell et al. (2001), the definition of strategic networking would be that it is a set planned or unplanned relations between enterprises in order to accomplish business or social objectives. In the hotel industry those would be relations between hotel enterprises and other economic and noneconomic entities. In most literature and researches, authors believe that entrepreneurs aim at strategic networking activities to ensure competitive advantage, which means that networking offers a number of business advantages. Castells (2005) believe that taking part in strategic networking allows the following: greater flexibility required to improve business opportunities, faster response to market demand and cooperation with other companies, i.e. with their forces and capabilities. Networking is an important current issue for the services sector: now the competition is between groups of companies instead of single firms (competition "group versus group") (Gomes-Casseres, 1994). Early investment in network relationships appears to be a solid basis for a competitive advantage against newcomers in the hotel industry where customer loyalty, switching costs and models of behavior are crucial factors of sustainable success (Balaeva et.al., 2012). The mechanism of strategic networking serves to improve the ability of hotel enterprises to offer competitive products (Krželj-Čolović et.al., 2016).

Hughes (1986) points out that the growth of hotel enterprises can easily be achieved through internal and external forms. Internal form, whereby a hotel enterprise retains its corporate identity and independence, is achieved by expanding the product range, by including the introduction of new goods and services by increasing sales, etc. External form is realized through horizontal, vertical and diagonal forms. Hughes further states that horizontal form is realized between two hotel enterprises at the same production level, i.e. the delivery of services, where goods or services are the same or similar. The afore mentioned Hughes' clasification, set as a starting accepted in literature covering this field.

The hotel industry places value on creating experiences and relationships with both customers and other businesses (<https://www.business.com/articles/eight-ways-to-network-with-hospitality>). These shared experiences stimulate customer loyalty and contribute to the success of

hotel business. Reaching out to another business can be a good opportunity not only for hotel enterprises but for another business nearby.

According to Krželj-Čolović (2014) more than half small and medium hotel enterprises were clustered, a third were in strategic partnership, 6% were in strategic alliances and 7% in cooperatives and various associations in the Republic of Croatia.

3. METHODOLOGY

Research data were obtained through an survey questionnaire using purposive sample of 10 consumers between April and August of 2018. Consumers were directors and owners of the hotels in Dubrovnik area. Out of 10 samples, all of them (100 %) were valid. The results of the survey is presented below.

Based on scientific problems and research objectives the following hypotheses are proposed:

H1 - Strategic networking has the effect of improving the performance of Dubrovnik hotel companies.

H2 - Clusters are the most commonly used forms of strategic networking in the Dubrovnik hotel industry.

Table 1 Forms of strategic networking

Forms of strategic networking	%
a) Other forms of strategic networking	60 %
b) Strategic partnerships	20 %
c) Clusters	10 %
d) Strategic alliances	10 %

Hotels in Dubrovnik area mostly use other forms of strategic alliances. Within other forms there are associations and collectives. Just 20 % of hotels have joined strategic partnerships.

Table 2 The significance of association on hotel business

The importance of association on your hotel business	%
It is very significant	30 %
It is somehow significant	30 %
It is completely irrelevant	20 %
It is significant	10 %
It has a few significance	10 %

30% of the hotel companies surveyed consider the association to be very or somewhat significant in their business, while only 10% think it is significant.

The conducted research shows that strategic association in the city of Dubrovnik has not been sufficiently recognized, even though the affiliated facilities believe that strategic association has great importance to the hotel business. The hypothesis stated: *Strategic association by its action affects the better operation of hotel companies*. The hypothesis is proven. Respondents believe that some of the benefits of strategic association are recognition and cost sharing, better and more functional cooperation, advancement in the hospitality and service delivery, lower purchase costs, etc.

The second hypothesis is: *Clusters are the most commonly used forms of strategic association in the hotel industry.* This hypothesis has not been proven, because other forms of association are the most popular among respondents. Clusters occur in only 10% of respondents. The cluster is defined by a strong framework for the sustainable development of the destination.

4. RESULTS AND DISCUSSION

Hotel industry is considered one of the most important activities in the economy because of its impact on the development of tourism. In order to make a hotel business successful, they often decide on development strategies.

The conducted research has shown that in most cases hotel companies determine for other forms of association, actually cooperatives and associations. Other forms of association are suitable to the hotel industry because of the opportunity to promote and develop the interests of their members.

The first hypothesis put forward is also proven. Although respondents believe that strategic association influences better business performance, only a small number of hotel companies enter into any form of association. Owners and managers are convinced that the association has more disadvantages than advantages, although the opposite is proven. Adverse macroeconomic policy in the Republic of Croatia is certainly one of the reasons for the smaller number of associations. The second hypothesis has not been proven. Clusters are not recognized as an asset, although pooling in clusters enables regional development, reduces costs, increases innovation, technological development, etc.

5. CONCLUSIONS

Strategic alliances are very often occurring in the global economy, mainly due to the conquest of new markets. By joining a strategic alliance, it is easier for businesses to access new technologies, capital, but also new and existing products. Strategic partnerships are the most common form of long-term association. The survey shows that partnerships in hotel companies are present in 20% of respondents. Strategic partnerships involve investment in capital, changes in ownership structure and disappearance of legal entities. The main disadvantages of strategic partnerships are lack of capital, loss of independence, and dependence on doing business with partner members.

The last form of association mentioned in hotel companies is clusters and cluster linking. Cluster connectivity is of great benefit to hotel companies, which is also reflected in the fact that ten leading hotel chain corporations manage almost one fifth of the world's hotel supply. Clusters offer different advantages, such as regional development, lower promotional costs, easier recruitment, innovation ... The disadvantages of a strategic association are worth pointing out deficiency of clear strategy, narrowly focused partner selection, lack of analytical thinking, poor management of the association.

The basis of each association is a joint collaboration that will lead to the achievement of goals. Therefore it is to recommend it to managers, but also owners, to understand the benefits of joining an alliance or other form of association, balance the risk that may arise, anticipate situations in which an association can help them strengthen their business.

Basically, the threats coming from outside the company should be the reason for the increasing strategic alliance. If only a hotel company develops a strategy that clearly defines the mission, vision and goals for their future, they will be ideal partners to enter into a strategic alliance or partnership. The strength of each association results from the clearly stated goals of its members.

REFERENCES

- Augustin, M., Knowles, T. (2000). Performance of tourism partnership. A focus on York. *Tourism Management*, 21(1), pp. 341-351.
- Balaeva, O. et al. (2012). Network Strategies of Hospitality Companies in Emerging and Transitory Economies: Evidence from Russia. In Delener, N. (ed.) *Service Science Research, Strategy and Innovation: Dynamic Knowledge Management Methods*. Arcadia University, USA.
- Castells, M. (2005). *The network society: A cross-cultural perspective*. Northampton, MA: Edward Elgar Publishing.
- Chathoth, P.K., Olsen, M.D. (2003). Strategic alliances: A hospitality industry perspective. *Hospitality Management*, 22(1), pp. 419-434.
- Copp, C.B., Ivy, R. (2001). Networking trends of small tourism business in post-socialist Slovakia. *Journal of Small Business Management*, 39(4), pp. 345-353.
- Davern, M. (1997). Social networks and economic sociology. *American Journal of Economics and Sociology*, 56(3), pp. 287-302.
- Fombrun, C.J. (1982). Strategies for network research in organization. *Academy of Management Review*, 7(2), pp. 280-291.
- Gomes-Casseres, B. (1994). Group versus group: How alliance networks compete. *Harvard Business Review*, 72(4), pp. 62-66.
- <https://www.business.com/articles/eight-ways-to-network-with-hospitality-industry-insiders/> [accessed 05.08.2019]
- Hughes, L.H. (1986). *Economic for hotel and catering students*. London: Hutchinson.
- Krželj-Čolović, Z., Vrdoljak Raguž, I., Milić Beran, I. (2016). Strategic networking in hospitality industry. In Vrdoljak Raguž, et al. (eds.) *Neostrategic Management: An International Perspective on Trends and Challenges*. Springer, Switzerland, pp. 27-43.
- Lynch, P.A. (2000). Networking in the Homestay Sector. *The services Industries Journal*, 20(3), pp. 95-116.
- Morrison, A.M. (3rd ed.) (2002). *Hospitality and travel marketing*. Albany, NY: Delmar Thomson Learning.
- O'Donnell, A., Gilmore, A., Cummins, D., Carson, D. (2001). The network construct in entrepreneurship research: A review and critique. *Management Decision*, 39(9), pp. 749-760.
- Pavlovich, K. (2003). The evolution and transformation of a tourism destination network: The Waitomo Caves, New Zealand. *Tourism Management*, 24(2), pp. 203-216.
- Telfer, D.J. (2001). Strategic alliances along the Niagara Wine Route. *Tourism Management*, 22(1), pp. 21-30.

