

# MODEL OF ASSOCIATED HOSPITALITY: DIFFUSE AND INTEGRAL HOTEL IN THE REPUBLIC OF CROATIA

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## ABSTRACT

Diffuse hotels represent a model of associated destination hospitality in the function of revitalizing villages and small towns in rural areas by putting in the tourist function existing facilities/buildings that have the status of traditional construction and ambient architecture. The aim is to popularize the historical core and the concerned area through tourist services, i.e. to encourage the development of authentic tourist services and, at the same time, to preserve and popularize traditional culture and generate revenue/income throughout the community, i.e. to encourage new value. Due to the specificity of the tourist offer in the Republic of Croatia, a model of integral hospitality has been developed in the function of the association of existing bidders. Both models are recognized in Croatian legislation. This article analyzes the characteristics of the model of diffuse and integral hotels, special attention is paid to the presentation and critical analysis of the existing Croatian legislation, and provides guidelines/suggestions for its improvement. The research problem of this article consists in the analysis of limiting factors in the business connection of the private sector through the diffuse hotel model. The key innovations and contribution of this article in the research of the business model of a diffuse hotel in Croatia are reflected in concrete proposals for improving the organization of diffuse hotels, improving existing legislation and strengthening the competitive strength of Croatian tourism by encouraging authentic destination tourism products.

## KEY WORDS

associated hospitality, diffuse hotel, integral hotel, Republic of Croatia, Croatian legislation, guidelines

## CLASSIFICATION

JEL: Z32, Z38, Z39

## **INTRODUCTION**

To this article, the theme of diffuse and integral hotels in the Republic of Croatia has not been adequately researched or given adequate scientific and professional attention. Since diffuse and integral hotels are formed following the acceptance of legal regulation, this article focuses on the definition of the diffuse and integral hotel model in general, and the analysis of existing legislation in the Republic of Croatia, its advantages and disadvantages. Based on the analyses, guidelines for improving legislation have been proposed so that it can be used in the best possible way in establishing diffuse and integral hotels as new models of association, enhancing competitiveness and fostering sustainable development. This article does not describe the existing diffuse and integral hotels in the Republic of Croatia, nor has their quality analyzed, because the analysis of the condition and quality standards of these hotels, i.e. analysis of examples of good practice of diffuse and integral hospitality are topics for separate research. The aim of this article is to allocate, describe and interpret the most important characteristics of the diffuse and integral hotel, their structural characteristics, and to analyze the legislative framework for the development of this new form of tourist accommodation in the Republic of Croatia.

For the purpose of research for this article in the process of data collection, various qualitative methods were used, mainly from secondary sources. The following relevant secondary sources were used: scientific and professional papers, books, Croatian legislation, official gazette, websites, official government sites and other sources. The processing of this data was based on description, linking, comparisons, analysis and interpretation. The limited amount of available data is the main reason why a descriptive research method was used in this article.

Before discussing the topic itself, the relevant foreign and Croatian literature on the problem was presented and analyzed. The main part of the article includes the definition of a diffuse hotel, its organizational framework, characteristics, special features and innovations. The diffuse hotel is also presented as a model for the development of new values, and a special chapter is dedicated to the analysis of Croatian legislation applicable in the examples of diffuse and integral hotel, with special elaboration of their role in strengthening the competitiveness of Croatian tourism. An important part of the article refers to the interpretation of proposals for improving the organization and operation of diffuse and integral hotels in Republic of Croatia, while the conclusion summarizes the importance of this research for Croatian science, paper originality and contributions / importance for future research on diffuse and integral hotels in general.

The scientific contribution of this article is that it provides a relevant and well-founded view on the definition of diffuse and integral hotels in general, and especially in the Republic of Croatia with regard to the existing legislation for which guidelines for its improvement are proposed. This article represents a step in further scientific research of diffuse and integral hotels in the Republic of Croatia, as well as specific problems related to the adoption of strategic decisions between the makers of tourist legislation and the real, private sector who are operationally involved in creating offers of diffuse and integral hotels. As the topic of diffuse and integral hotel has not been adequately researched in the Croatian scientific literature, this article represents a further step in filling this gap.

The main thesis of this article is based on the analysis of structural specifics of the diffuse hotel model, its supply characteristics as well as the analysis of innovative approach in coordination and better market connection of the private sector in tourism through improving the existing Croatian tourism legislation.

The actuality of the research problem of this article is based on changes in global tourism trends. Tourist trends result in a specific tourist demand based on authentic tourist products and services, which a diffuse hotel is in its essence. Also, trends favor alternative tourism as opposed

to mass tourism, i.e. the valorization of the cultural specifics of the destination with a responsible approach in the development of tourist services. In this sense, diffuse hotel represents a sustainable way of managing and developing a tourist destination.

## LITERATURE OVERVIEW

This brief review of the literature will list and present selected foreign and domestic scientific literature that has a diffuse (and integral) hotel as its topic, and is important for its understanding, and one of its numbers has been used in writing this manuscript. The research of recent literature is limited, first of all, by its limited quantity, i.e. number. This numerically limited literature, most of which is scientific research (studies), is geographically limited mainly to Italy, then to Slovenia and a smaller number of papers related to Croatia.

A study of the literature on the diffuse hotel revealed that one of its numbers refers to different approaches of researchers and practitioners on the interpretation, i.e. different use of the term “diffuse hotel”, i.e. “Albergo Diffuso”, when it is translated from Italian into English [1; pp.44-45].

“Diffuse Hotel”, or “Albergo Diffuso”, has Italian origin [2], and represents a relatively new theme of scientific research [3, 4]. The occurrence and development of the diffuse and integral hotel was described by C. Vallone and V. Veglio in a brief overview, specifically referring to their characteristics and importance [5]. The theme of the diffuse hotel, in many of his works, was studied by Dall’Ara, who systematically dealt with various aspects of this model of associated hospitality, for example by defining, the reasons and needs of the establishment of a diffuse hotel in an area [6], then purposefulness, values, conditions that must be met by the accommodation facilities of a single diffuse hotel, and various marketing approaches [7, 8]. The development of the concept of an integral hotel as a form of innovative tourism, initially a mountainous area in Italy, with an analysis of all its comparative features opposite other forms of tourist offer accommodation, was the theme of the scientific work of F. Colbert [9]. How important a diffuse hotel is for the development of sustainable tourism, especially since it is sensitive in preserving cultural heritage using the material and intangible heritage sources of the area, was studied by C. Vignali [10]. The diffuse hotel was also discussed as a business tourism model dominated by user demands for quality with great importance of the location, i.e. landscape; all this can encourage the development of new economic and social values, while the case study, i.e. the good practice of the “Chateau Le Cagnard Hotel” was used as a sample example [11].

Some researchers dealt with certain specifics of diffuse hotels. One such study confirmed that the diffuse hotel is a socio-culturally embedded entity in the place where it occurs and that the owners of the diffuse hotel, i.e. entrepreneurs, have a high level of personal motivation in the establishment of one such hotel [3; pp.235-236]. The second research, on the other hand, defines the characteristics of the business model of the diffuse hotel in terms of understanding the key elements of the basis of the hospitality approach, which are business idea, value creation and innovation [12]. The business idea aims to revitalize the place through the emotional connection between the place and the entrepreneurs. In terms of value creation, a diffuse hotel is a form of accommodation that offers more than a hotel experience; tourist can live as a resident and experience local traditions and culture. Innovation refers to services that are completely different from traditional hotels. D. Throsby tried to show that the diffuse hotel model can be interpreted as a means of combining economic and cultural values into a single framework with the concept of “culturally sustainable development”, which he defines as a set of criteria relating to the improvement of tangible and intangible well-being, intergenerational and within generational fairness, and recognition of inter-dependency between them [13].

Some scientific papers analyze the diffuse hotel model in certain areas and/or on certain specific examples and try to find answers to questions on how to overcome excessive tourism [14], in some, the Italian diffuse hotel model is considered as the best possible way to preserve traditional heritage and encourage development under similar conditions in other European countries [15], or analyze the services and user satisfaction of diffuse hotels in order to justify the necessity of such an innovative entrepreneurial model [16].

In the Slovenian scientific literature, we highlight the paper of S. Zupan Korže [1]. In it, the author interprets the key characteristics, structural and legislative features of a diffuse hotel as implemented in Italy, which he compares with a traditional hotel, and presents the first Slovenian diffuse hotel, its legal and organizational structure. The results of the author's research showed that a diffuse hotel in Italy is formally considered a subtype of hotels with strong connections to the surrounding area and local culture and with special physical characteristics and hospitality service that distinguish a diffuse hotel from traditional hotels and other traditional types of tourist accommodation. As for Slovenia, the author states that the initiative to design diffuse hotels was founded in 2010, but only one was implemented, in Konjice, in December 2017, despite the gap between the strategic approach of Slovenian tourism policy makers and the private tourism sector. It is interesting that Zupan Korže in his research cites and consults the Croatian "Ordinance on the classification, quality star rating and special standards of hospitality facilities from the group Hotels" [17], stating that in Croatian legislation the term "diffuse hotel" is used as an official name, i.e. translation of the term "Albergo Diffuso" [1; p.44].

Croatian scientific literature is modest when it comes to exploring the topic of diffuse and integral hotel. Several scientific papers discuss the use of the appropriate Croatian name, i.e. the translation "Albergo Diffuso" as "diffuse hotels" [18], i.e. the use of the original Italian name [19; pp.608-609]. In some Croatian scientific papers "Albergo Diffuso" is understood as a tourist/hospitality model – a form of innovative tourist content and innovation [18], i.e. as a hospitality concept [20].

One of the first more extensive scientific papers that deals with the theme "Albergo Diffuso" is that of M. Dropulić, A. Krajnović and P. Ružić [19]. In it, they represent "Albergo Diffuso", until then unknown in Croatian theory and practice, as a new type accommodation that additionally makes maximum use of the cultural and historical heritage of the destination with the aim of developing sustainable destination tourism. They are also trying to answer questions about the risks of investing in such a model of accommodation, its possible impact on the development of rural areas, examining the relationship to standard hotels and the ratios of quality and price in such a hotel. The authors conclude that "Albergo Diffuso" is one of the possible solutions for the sustainable growth of tourism, and its characteristics are very interesting and in marketing terms an attractive form of tourist offer. Also, the authors prove that Croatia has great potential for the development of the concept of "Albergo Diffuso" in tourism legislation, tourism system and entrepreneurial practice. The development of this concept would have a positive impact on the overall competitiveness of the Croatian tourist product, and at the same time would increase the quality of tourist destinations in rural areas, where the concept would be developed. In addition, the opportunities for family entrepreneurship in the hotel industry would increase. Influencing the preservation of the centers of historic cities that are full of Istria and Croatia, the concept of "Albergo Diffuso" has a significant impact on preserving the rich Croatian cultural heritage, as well as the maximum use of Croatian traditions and authentic way of life, while offering a new type of tourist offer showing the characteristics of the concept of sustainable tourism growth. Through research into the possibility of transforming the existing family hotel "Kaštel" in Motovun into the first "Albergo Diffuso" in Croatia, the authors confirm the thesis that this concept in Croatia is a possible,

necessary and important factor in responsible tourism growth in Croatian rural areas. One of the basic preconditions for achieving this goal is the application of the concept of “Albergo Diffuso” in all segments of the tourism system, from legislation to entrepreneurial practice, which will be possible by participating in EU projects dealing with rural development [19].

It also highlights a scientific paper that analyzes some specific features of diffuse hotels and explores the possibility of improving the tourist offer of agricultural households on the basis of the application of diffuse hotels in the area of Dubrovnik-Neretva County, which has shown that the diffuse hotel can be considered and accepted as a form of accommodation in the future development of tourism in the area of the mentioned county [21]. Furthermore, in the article of S. Tišma, A. Farkaš and A. Pisarović, the authors present the possibility of applying the model “Albergo Diffuso” in the area of three inhabited Elaphite islands – Koločep, Lopud and Šipan in Croatia [22]. Their research showed that the Elaphite Islands have most of the necessary prerequisites for the implementation of the “Albergo Diffuso” model: a rich but underused natural, historical and cultural heritage, a reasonable number of accommodation capacities and a long tourist tradition. The article summarizes the solutions and suggestions of a list of improvements to extend the tourist season and attract wider groups of tourists. The successful application of the “Albergo Diffuso” model would inevitably require changes to the existing system in the sense that systematic and coordinated cooperation must be established between relevant stakeholders at all levels of governance [22; p.107].

Of importance is the research of J. Đurkin and M. Kolarić, who in their scientific work gave a systematic overview of the main characteristics, management practices and organizational forms associated with diffuse and integral hotels with emphasis on their benefits in terms of sustainable tourism and local community development [23]. Their analysis provides new insights into important differences between the planned positive changes intended to introduce diffuse and integral hotel models into Croatian practice, their recognition and interpretation in the real tourist sector, based on which recommendations for future development and management of diffuse hotels are proposed.

At the end of this review of the Croatian scientific literature, we highlight two strategic documents. One is the “Strategy for the development of Croatian tourism by 2020” which defines and emphasizes the importance of accommodation that is applicable for the development of a diffuse and integral hotel [24], and the “National Program for improvement of vacation rentals”, which provides detailed guidelines and activities to enable the transformation of vacation rentals capacities into a diffuse hotel [25].

The main reason for the legal definition of a diffuse and integral hotel in the Republic of Croatia derives from the goals of the “Strategy for the development of Croatian tourism by 2020” which relate to the program of improving vacation rentals. The “Strategy for the development of Croatian tourism by 2020” defines the importance of vacation rentals for the Republic of Croatia and points to the need to raise the overall level of quality of vacation rentals, create preconditions for converting part of the capacity into various forms of collective accommodation (business association) and slow down the expansion of vacation rentals, i.e. the existing share of the accommodation structure of the Republic of Croatia [24; pp.50-51].

## **DISCUSSION**

### **DEFINITION OF THE DIFFUSE HOTEL**

A diffuse hotel can be defined as a popular, tourist-integrated service that includes services such as reservations, reception, accommodation, restaurant, local cooking courses, old craft schools,

swimming, hiking and other services [16; pp.247-248]. In a diffuse hotel, the innovation is reflected in the re-use of existing facilities and the involvement of various actors guided by the goal of providing an integrated service [16; pp.248-250]. This is why a diffuse hotel is a good example of the concept of sustainable development [13]. The diffuse hotel concept can revitalize abandoned areas and has the ability to be an innovative business model that suits the environment and cultural interest [5]. Furthermore, the concept of a diffuse hotel protects the cultural landscape, the environment and the community. It also enables the economic development of small rural destinations while preventing depopulation [2]. The development of a diffuse hotel is based on local resources, preservation of the territory, its biodiversity, resource efficiency and energy savings. The importance of preserving and strengthening local identity is also taken into account [26]. The diffuse hotel concept does not require greenfield investment or any other type of construction. It is aimed at using what already exists in terms of increasing the value of tradition and obtaining positive economic results in the context of sustainable development [19].

## **ORGANIZATIONAL FRAMEWORK**

A diffuse hotel consists of structural elements that do not differ in content from a classic hotel, but conceptually are fundamentally different due to the destination approach in organizing services and, in general, the offer. According to the International Association of Diffuse Hotels, Associazione Internazionale Alberghi Diffusi, ADI, the structural elements of a diffuse hotel are [27, 28]:

### **1.) Facilities (buildings) characterized by:**

- architectural recognizability,
- architectural (ambient) typicality, and
- their quality maintenance.

### **2.) Ambience (accommodation and common areas) which must be marked by:**

- comfort,
- quality arrangement and maintenance of common areas (central reception, living room and other),
- home atmosphere,
- central reception,
- living room (separate space or within the reception), and
- quality of accommodation units (rooms, apartments, houses), a minimum of seven accommodation units connected to an integral hotel located at a distance of approximately 200 meters from the central reception.

### **3.) Management structure:**

- entrepreneurial management (professional form of registration of an integral hotel),
- unified management of tourist services through hotel form, and
- competence and professionalism of the employees of the central reception (knowledge of the principles of functioning and organization of the integral hotel).

### **4.) Restaurant services:**

- contract with existing restaurants in the place according to the model of business connection to a hotel or an integral hotel organizes its own restaurant as a common space for guests.

### **5.) Other (additional) services:**

- managing guests' free time, and
- creating a package of tourist services in order to make the stay of guests in the hotel more meaningful.

The peculiarity of the diffuse hotel, as its name suggests, is reflected in its organization in which accommodation units and other points of tourist services are dispersed by destination, i.e. the historic center of the place, and is characteristic of the historic cores. The basic idea of the diffuse hotel is to put into operation the already existing buildings within the historic center, which are given new value through tourist services, and to connect the already existing accommodation offer known as vacation rentals. At the same time, the construction of new facilities that could disrupt the authentic environment is prevented. The goal of organizing this type of hotel is to popularize historical cores through tourist services, i.e. to encourage the development of authentic tourist services, and at the same time to preserve and popularize traditional culture and generate income/revenue in the whole community, i.e. to encourage new value through a new tourist product. Diffuse hotel is presented as a model of sustainable development which aims to use existing resources, tangible heritage (culture, crafts, small business) and intangible (traditions, knowledge, social components) of a place or territory.

Sustainable tourism is one of the European Commission's priorities where the diffuse hospitality model can be used as a sustainable development strategy, as it meets several goals in the community, such as:

- ***economic prosperity***: the diffuse hotel is a model focused on revitalizing and restoring existing resources and creating new values,
- ***capital and social cohesion***: a diffuse hotel improves the quality of life of the local community and offers visitors experiential experiences through tourist services, reduces the degradation of the natural and cultural environment and opens up opportunities for the domestic population for entrepreneurial enterprises through tourism services, and
- ***high potential for business growth, development and the creation of new jobs in the community***: directly, by employment in a diffuse hotel, and indirectly, by developing partner entrepreneurship in the community for the purposes of diffuse hotel services [29; p.4].

The diffuse hotel is an innovative form of sustainable tourism for present and future generations because it promotes heritage and is oriented towards the revitalization and reinterpretation of local cultural identity and the design of events thematically related to cultural heritage.

## **CHARACTERISTICS, SPECIAL FEATURES AND INNOVATION OF A DIFFUSE HOTEL**

The diffuse hotel is an original model of hospitality that is characterized by a deep connection to the territory and local culture. Namely, as territory and culture are an integral part of the services on offer, the diffuse hotel is conceived as a model of sustainable development, which seeks to recognize the value of local resources such as cultural heritage, small craftsmanship and small entrepreneurship. Local tradition, history and social interaction are also taken into account [8].

Diffuse hotel in historic cores, where the biggest problem is depopulation and abandonment of buildings as a place of permanent residence, can prevent depopulation and abandonment of places rich in history and art, and through tourist services give historic buildings a new function, creating new added value to the population and, ultimately, the community. The diffuse hotel also promotes the economic development of the historical cores of the place/site, and aims to increase local employment without adversely affecting the environment in terms of contamination of local culture and/or identity.

The diffuse hotel is an integrated system of offering tourist services related to the local community, aimed at a new generation of tourists eager to experience local culture and directly participate in local traditions and other events. The model is based on the following requirements:

- unitary management through professional management of private accommodation connected to the hotel (integrated professional management),

- accommodation units organized in several buildings in the immediate vicinity (within a radius of about 200 m) in the center of the place that are part of the cultural identity of the community (historic buildings),
- the presence of local crafts, and
- the presence of a living community.

The innovation of a diffuse hotel is reflected in the inclusion and connection of different stakeholders who, through coordinated management, develop an innovative form of tourist services (hospitality) by valorizing the potentials in the area where the hotel is formed. Despite having different owners (different stakeholders business-connected in a diffuse hotel), unified diffuse hotel management promotes integrated service and integrated customer service.

The peculiarities and differences between a traditional hotel and a diffuse hotel are obvious. Basically, a diffuse hotel has a clear, conventional hotel structure, given the organization of standardized services provided to its guests, regardless of the fact that the accommodation units are located in different buildings. However, a significant difference is reflected in the way existing accommodation services are managed in historic cores in order to be more purposeful, better and more efficient. That's why the diffuse hotel allows guests to feel part of the community.

According to the business philosophy, a diffuse hotel at the same time represents the home (the idea is that the guest feels intimate as at home in terms of organization of accommodation) and a hotel (since it has all the hotel services that can be available to the guest). As opposite to the diffuse hotel, the integral hotel is characterized as "*Un po 'casa, un po' albergo*", i.e. "*Kind of house, kind of hotel*". The characteristics of a integral hotel according to the International Association of Diffuse Hotels, Associazione Internazionale Alberghi Diffusi, ADI, are listed in Table 1 [27; p.8].

**Table 1.** Characteristics of an integral hotel [27].

| <b>INTEGRAL HOTEL CHARACTERISTICS</b>      |  |
|--|--|
| <b>Feeling at home</b>                     | <b>Feeling like a hotel</b>                          |
| Politeness and kindness                    | Providing professional services                      |
| Authenticity                               | Efficiency   |
| Non-standard rooms                         | Easy booking   |
| Local (traditional) furniture              | Price difference – according to the variety of rooms |
| The importance of detail                   | Comfort  |
| Connection with the territory              | Wide range of services                               |
| Communication with the domicile population | Communication with other guests                      |
| Informal environment                       | Privacy  |

Based on the analysis of the diffuse hotel, it can be concluded that this business model is structured with local characteristics (morphological, climatic, architectural, economic and others), and socio-cultural specific features that have developed in the place throughout history and created a specific recognizable way of life, so-called lifestyle, which is a very strong driver of the development of innovative and integrated, modern, tourism services. The diffuse hotel responds perfectly to the needs of modern tourists, since as a type of hotel it is designed to



provide guests with a unique experience of experiencing the historic core/center of the place and to provide a sense of local.

### **DIFFUSE HOTEL AS A MODEL OF DEVELOPMENT OF NEW VALUES**

A diffuse hotel occurs when the following conditions are met [8]:

- an idea launched within the local community and residents who have noticed the benefits that can lead to innovation,
- there is an interest of local stakeholders for joint business operations,
- organization of unified management of services of several stakeholders of different registrations (private renters, restaurateurs, other service providers),
- accepting the risk of a business venture,
- a minimum of seven stakeholders connected in the business model of an integral hotel located at a distance of about 200 meters from each other,
- long-term business through a diffuse hotel model (minimum three years),
- the existence of a developed infrastructure that the guest can use (food stores, cafes, pharmacies, etc.),
- the existence of attractions such as the village, sea, mountains, cultural monuments, archaeological sites, museums and the like, and
- a living community, that is, a town or place that has not been abandoned and inhabited by its inhabitants.

The strengths of a diffuse hotel are:

- ***ability to meet the needs of demanding guests with extensive travel experience***: these are tourists who travel very often, who have used their vacation and stay in different types of hotels and different destinations and are looking for innovative tourism products that can reflect the “spirit of the place” (*genius loci*),
- ***respect for the cultural ambience***: since the diffuse hotel is organized in already existing facilities within the historical core, it does not intervene in the existing, determined cultural environment but adapts to specifics, and yet acts as a business activity,
- ***authenticity***: unlike classic hotels, a diffuse hotel allows guests to experience staying in historic houses and buildings designed to look like home (visually and sensibly),
- ***articulated offer***: the guest of the integral hotel has at his disposal a wide range of additional services by the hotel itself, i.e. providers who are business related to the hotel. Also, accommodation is organized in different buildings, at different locations in the historical core, which have different architectural characteristics, different approach to landscaping, and therefore emphasized price differentiation,
- ***originality***: original ambience that requires access to the creation of original tourist services which enables better market visibility and market positioning,
- ***hotel services***: a diffuse hotel has all forms of hotel accommodation and services regardless of the dispersion of accommodation and other reception services (such as, for example, restaurants), and
- ***management method***: a high degree of cooperation of diffuse hotel stakeholders with the aim of creating a unique management structure that performs a large part of the work for stakeholders in receiving guests and organizing additional services.

The critical success factors of the diffuse hotel development model are [27; pp.6-7]:

- integrated tourist services,
- effective management,

- ability to establish relationships between stakeholders providing tourism services and other services of interest to the tourism industry,
- added value to local events (festivals, manifestations, celebrations, etc.) that spread and strengthen local traditions and culture,
- high quality of services,
- preservation of local culture,
- live historical core atmosphere
- supply of locally produced products, and
- the preservation of an authentic environment.

## **DIFFUSE AND INTEGRAL HOTEL IN CROATIAN LEGISLATION**

The main reason for the legal definition of a diffuse and integral hotels in the Republic of Croatia derives from the goals of the “Strategy for the development of Croatian tourism by 2020” which relate to the program of improving vacation rentals. The “Strategy for the development of Croatian tourism by 2020” defines the importance of vacation rentals for the Republic of Croatia and points to the need to raise the overall level of quality of vacation rentals, create preconditions for converting part of the capacity into various forms of collective accommodation (business association) and slowing down the expansion of vacation rentals, i.e. retaining the existing share in the accommodation structure of the Republic of Croatia [24].

Since 2014, the model of dispersed (horizontal) hospitality has been legally recognized in the Republic of Croatia. Two variants of organization have been defined, i.e. two models: diffuse hotel and integral hotel.

In the case of a diffuse hotel, the investor is the sole owner of all facilities in which the hotel is organized. “Ordinance on the classification, quality star rating and special standards of hospitality facilities from the group Hotels, Article 30”, defines a diffuse hotel as follows [17]:

- 1.) Diffuse hotel is a facility where guests are provided with accommodation and breakfast services.*
- 2.) The diffuse hotel must be in predominantly old, traditional, historical, rural-urban structures and buildings, decorated and equipped in the traditional way.*
- 3.) Diffuse hotel is a functional unit consisting of three or more buildings and/or parts of buildings integrated into the local environment and way of life in the area of one settlement. Each building or part of a building must have a separate entrance, horizontal and vertical communications. Buildings and/or parts of hotel buildings may be spread throughout the settlement between buildings of other purposes. Hospitality facilities in which hospitality services are provided can be separated by a public or shared area. Hospitality facilities (reception, accommodation units, facilities for preparing and serving meals, drinks and beverages, etc.) can be accessed directly from the outdoor area.*

In the case of an integral (associated) hotel, a group of local actors (private sector) creates a kind of consortium, i.e. business is connected by creating a special entity (e.g. company, cooperative). “Ordinance on the classification, quality star rating and special standards of hospitality facilities from the group of Hotels, Article 38”, defines an integral hotel as follows [17]:

- 1.) An integral hotel is a facility in which a caterer/restaurateur provides accommodation and breakfast services in common facilities, its hospitality facilities and/or facilities of other caterers/restaurateurs and/or renters, who have previously obtained a solution.*
- 2.) An integral hotel is a functional unit in three or more buildings and/or parts of buildings in the area of one settlement. Buildings or parts of hotel buildings can be spread throughout the settlement between buildings for other purposes. Hospitality facilities in which hospitality*

*services are provided can be separated by a public or shared area. Hospitality facilities can be entered directly from the outdoor area.*

### **Diffuse and integral hotel in the function of strengthening the competitiveness of tourism in the Republic of Croatia**

The association of vacation rentals through a model such as diffuse and integral hotel, with the aim of strengthening the competitiveness of tourism of the Republic of Croatia is one of the key activities of the “National Program for improvement of vacation rentals” which should result in:

- the creation of new and innovative tourist products in the destination,
- the development and improvement of the quality of the accommodation offer,
- the realization of common interests and joint appearance on the market,
- market recognition of accommodation facilities,
- professionalization of family accommodation,
- increasing occupancy in the pre- and post- season, and
- stimulating micro economy [25; pp.30-34].

According to the data of the Ministry of Tourism of the Republic of Croatia 2 diffuse hotels with a total capacity of 62 beds and 22 integral hotels with a total capacity of 905 beds were registered [30]. Diffuse hotels are located in Istria and Zadar County, while integral hotels are the most numerous in Split-Dalmatia County, 10, three in Zagreb and Dubrovnik-Neretva County, two in Karlovac and Primorje-Gorski Kotar County and one in Istria and Zadar County. Existing diffuse and integral hotels and their quality will not be described and analyzed here, because this is a separate topic that requires a different approach and separate scientific work.

### **Diffuse and integral hotel in the Republic of Croatia according to the “Ordinance on the classification, quality star rating and special standards of hospitality facilities from the group Hotels”: types of facilities and minimum standards**

According to research carried out for the purposes of this scientific paper, although there is a significant increase in integral hospitality in the Republic of Croatia, there has not been a collective association (business association) of vacation rentals, i.e. private renters. All registered and categorized integral hotels are not organized by uniting of existing registered service vacation rentals but by re-categorizing vacation rentals into an integral hotel with several accommodation units, primarily apartments, the same owner. Due to the prescribed business operating conditions of diffuse and integral hotels, there is no strong motivation of family accommodation owners to professionalize their business through the model of diffuse and integral hospitality.

The **diffuse hotel** can be organized exclusively in historical and traditional buildings in small settlements (villages) and towns that are decorated and equipped in a traditional way. The hotel can consist of at least three traditional buildings scattered throughout the resort. The basic services of the hotel are accommodation and breakfast. Accommodation is not pre-categorized, it is categorized when registering a hotel. This means that the entire hotel (both accommodation and other services) is categorized according to the prescribed minimum conditions. Breakfast and other hospitality services can be provided in their own space (own restaurant) or connected to existing restaurants in the village. The hotel must have a central reception with all the prescribed elements specified in the Minimum Standards of the “Ordinance on the classification, quality star rating and special standards of hospitality facilities from the group Hotels” [17]. The hotel must operate as a craft, cooperative or company. The owner of the hotel can be one person if he owns at least three buildings (which are not previously categorized for the provision of accommodation services) and which are placed in the function of the hotel, or several owners of buildings that join or organize through the hotel. The aim of the diffuse hotel is

to arrange and put into operation traditional buildings in rural and urban settlements and joint (multiple owners of buildings) business organization through the hotel.

An **integral hotel** can be organized in any settlement/resort and is not conditioned by traditional buildings as a diffuse hotel, i.e. any functional building comes into account. The hotel can consist of at least three buildings scattered around the settlement/resort. The basic services of the hotel are accommodation and breakfast. Hotel accommodation consists exclusively of pre-categorized accommodation, i.e. accommodation of registered vacation rental owners in the settlement/resort. This means that when registering a hotel, accommodation is not categorized, because the existing quality star rating is recognized, and the quality star rating of hotel is done according to the prescribed Minimum Standards of the “Ordinance on the classification, quality star rating and special standards of hospitality facilities from the group Hotels” (reception, etc.) [17]. Breakfast and other hospitality services can be provided either in their own space (own restaurant) or connected to existing restaurants in the settlement/resort. The hotel must have a central reception with all the prescribed elements specified in the Minimum Standards of the “Ordinance on the classification, quality star rating and special standards of hospitality facilities from the group Hotels” [17]. The hotel must operate as a craft, cooperative or company. According to the current legislation in Croatia, vacation rental owners make their entire accommodation capacity available to the hotel, which means that they lose their autonomy and can operate on the market exclusively through the hotel, not independently, or can fill capacity through travel agencies or directly on the market (their own booking). In this case, vacation rental owners lose the status of a lump sum taxpayer and pay all tax liabilities (income or profit tax, any value added tax) through the hotel. They also pay tourist tax and tourist membership fees through the hotel. This means that vacation rental owners become one business unit and operate exclusively through the form of a hotel, and only the existing quality star rating of accommodation is recognized. The aim of the organization of an integral hotel is to consolidate the offer of vacation rentals and their business through the model of small hotel business.

Difficulties in organizing a diffuse and integral hotel in the Republic of Croatia would be:

- Vacation rental owners lose their autonomy and can no longer directly operate through travel agencies and tour operators or charge their facilities independently. Most vacation rental owners operate through travel agencies or OTA (online tourist agency such as, for example, Booking.com [31]), and for the executed and charged reservation they approve the agreed commission to the agency, i.e. they know in advance what their income and cost (commission) is per reservation for bringing guests.
- Vacation rental owners already have a well-established network of business with travel agencies and independent appearance on the market, which through the association of diffuse and integral hotels should be waived. A diffuse and integral hotel can take over business with agencies with which private renters operate, but this makes business more expensive for renters. Specifically, this means that now the commission to the vacation rental owner is the cost approved by the agencies of, for example, 15 % for the reservation/booking of accommodation. Operating through a hotel increases the cost to the renter because the hotel pays a 15 % commission to the agency, and the vacation rental owner must give the hotel a portion of the earnings of at least 10 % in order for the hotel to finance its current operations: employee salaries, overhead costs and more. The possibility of the hotel entering the value added tax system very quickly should also be taken into account, which means that the price of accommodation for vacation rental owners will increase by 13 %, which calls into question further competitiveness.
- It should also be taken into account the fact that vacation rental owners with travel agencies have contracts mainly concluded for a year, which cannot be terminated during the season without

penalties, which means that even if they wish to do business exclusively through an integral hotel, terminating contracts with agencies before the contract expires will not be “painless”.

- The 16-hour reception hours require at least three full-time employees and raises the issue of financing employees’ salaries and other expenses. Vacation rental owners are not motivated to pay employees and other hotel expenses when they do not know in advance whether they will fill their capacities through the hotel.

## **PROPOSALS FOR IMPROVING THE ORGANIZATION AND OPERATION OF DIFFUSE AND INTEGRAL HOTEL IN THE REPUBLIC OF CROATIA**

In order to improve the organization and operations of diffuse and integral hotels in the Republic of Croatia, the implementation of the following proposals should be considered:

- Allow diffuse and integral hotels to operate with vacation rental owners on the principle of “on behalf and for account” of hotel stakeholders or vacation rental owners. Vacation rental owners in this case retain their autonomy. The establishment of a hotel, the expansion of business and the provision of services to renters (in addition to filling the capacity and cleaning system of the facility, the organization of guests’ free time, etc.) will motivate renters to leave their business to the hotel.
- Vacation rental owners should remain in the lump sum taxation because if they operate through the hotel on a principle of “on behalf and for account”, when the hotel enters the value-added tax system, they remain competitive with prices, do not enter the value-added tax system individually and are not in the obligation to keep bookkeeping individually.
- Allow autonomous determination of the opening hours of the reception of the hotel according to the possibilities, and at a time when the reception is not open allow the receptionist to be contacted by phone.
- Enable the introduction of capital grants by the ministry of tourism exclusively for diffuse and integral hotels with the possibility of financing the salaries of hotel employees for at least one year from the registration of the hotel.
- Diffuse and integral hotel should be a model of business organization and additional offers for vacation rental owners, which can be interesting to guests and target groups for arrival to the destination and outside the main tourist season which lasts from June to September.

Diffuse and integral hotel is a receptive structure composed of several connected accommodation providers and several providers of other tourist and hospitality services with a unique management (administration). The management structure manages the business of the integral hotel based on the annual business plan and defined tasks. It is of great importance to establish a model of management structure that will be functional and efficient. Diffuse and integral hotel, as a structure that is oriented towards the entire destination, manages accommodation capacities and through networking creates, implements and manages additional innovative facilities and services with the aim of creating experiential experiences of hotel guests in the historic center.

Business connection of stakeholders of diffuse and integral hotels (vacation rental owners and other service providers) is done by contracts (contracting rights and obligations related to business). The contract can be signed in two ways in accordance with the provisions of the Croatian “Act on Mandatory Relations” [32]:

- *A contract “on behalf and for account” of a stakeholder (vacation rental owners and other service providers) when only agency commission approved by the stakeholder is considered revenue. If the integral hotel would exceed the threshold of HRK 300,000.00 of revenue per year and enter the value added tax system, then that tax is paid only on the amount of the commission. In this case, it is a commercial representation when the shareholders have*

authorized the diffuse and integral hotel as an agent to perform certain tasks in its name and on its behalf. For these transactions, the shareholders of the hotel (agent) approve the agreed commission. Here the business operator/holder of activity is a vacation rental owner and other service providers and all legal responsibility for the service provided is theirs. The diffuse and integral hotel has the function of an agent and may not offer accommodation at a price other than that determined by the shareholders (vacation rental owners and other providers of tourist and other services).

- *Contract in “own behalf and on the own account” of shareholders (vacation rental owners and other service providers)* when the income is considered to be the total amount charged for the service and in the case of entry into the value added tax system, that tax shall be paid on the entire amount of the invoice collected. When working according to the contract in its own behalf and for its own account, then the diffuse and integral hotel as an agent becomes the bearer of activities and responsibilities, forms the price as it wants, makes a difference in price and fully disposes of accommodation and other services for which such a contract has been concluded.

Business connection in a diffuse and integral hotel will enable:

- active participation of all interested stakeholders in further conceptions of the hotel’s business policy,
- joint planning, implementation of activities and sales of services with the aim of better selling capacity, increased competitiveness and quality of products and services,
- organizational and technical assistance to vacation rental owners in all business segments (consulting) and solving common needs such as parking for hotel guests, card business and others,
- stronger marketing and promotional connections with tourism markets,
- protection of interests and improvement of the negotiating position towards public institutions, local, regional and national state administration, agencies and tour operators,
- informing about all changes, modifications and new legal regulations of importance for diffuse and integral hotel activities, private renting and tourism in general, and
- through the development of packages of services, products and special activities, activation of business resources but also destination attractions, which will allow occupancy capacities outside the tourist season (October-April) and improve occupancy in the main season (May-September).

## **CONCLUSION**

The results of this research showed the organizational and legislative framework for the development of diffuse and integral hotels in the Republic of Croatia. The diffuse and integral hotel has the strategic goal of networking the existing stakeholders of tourism service providers into a unique, competitive, innovative and complex tourism product. It also plays an important role in fostering mutual trust and concrete cooperation between vacation rental owners, caterers and other service providers through hotel entrepreneurship. Furthermore, the diffuse and integral hotel offers the tourist market an integral tourist product based on experiential experiences for the guest, strengthens the visibility of destinations in tourist markets and achieves a better market share. The diffuse and integral hotel is focused on year-round operations instead of seasonal ones, with the intention of raising the occupancy of accommodation capacities of private renters during the year, and thus encourages raising the quality of accommodation capacities, creating new tourist services and facilities, for example, congress tourism, wedding tourism, pet friendly tourism, tourism of special interests based on cultural specifics and others. The model of diffuse and integral hotels encourages the revitalization of abandoned and demolished historic buildings by connecting them and putting them into tourist function, and this allows solving specific difficulties in tourist infrastructure such as, for example, organized parking, luggage transport and more. Finally, the establishment

of a diffuse and integral hotel indirectly encourages the inclusion of residents in tourism processes through, for example, arranging and decorating their own place of residence in order to increase the visual identity of the place, and also encourages new employment of highly educated and skilled employees trained to serve modern tourism services.

Diffuse and integral hotel is organized with the aim to professionally connect vacation rental owners and other providers of tourist services with the main purpose of stronger and more purposeful business, in order to create a new tourist product, but also to further improve the functioning and articulation of the tourist offer of the place. A diffuse and integral hotel is not a tour operator or travel agency that deals exclusively with contracting the sale of accommodation facilities and other tourist services. Diffuse and integral hotel is a business connection and networking in order to achieve better market share, but also to create a new innovative tourism product and does not exclude the connection of vacation rental owners with specialized agencies and tour operators or autonomous filling/charging of accommodation facilities/capacities.

Diffuse and integral hotel represents a great opportunity to achieve greater competitiveness of Croatian tourism by increasing the quality of vacation rental products and services and through business associations to use all resources that can contribute to the diversification of services. In this regard, it will be necessary to improve Croatian legislation in order to maximize the effects and benefits of diffuse and integral hospitality.

The implications of this article on science can be seen through research and study of sustainable tourism business models at the destination level, their impact on the economy of the local community, social inclusion and, in particular, valorization and revitalization of cultural heritage in the function of tourism offer. Modern tourism development policy is based on a responsible approach and in this sense this article contributes to the theory of science by analyzing the business models of diffuse association, their impact on destination development and, in particular, their importance to raise the competitiveness of the destination. In practical terms, the contribution of this article is reflected in clearly defined guidelines for the improvement of legislation, i.e. the minimum technical conditions that would contribute to greater acceptability of this business model in the private sector in tourism (renters) in order to improve market share and market visibility.

The aim of this article was to describe and interpret the most important structural characteristics of a diffuse and integral hotel and to analyze the legislative framework. The contribution is a concrete proposal to improve the business conditions of diffuse and integral hotels in the Republic of Croatia, detection of restrictive conditions for the organization and operation of diffuse and integral hotels in the existing legislative framework and, at the same time, elaboration and analysis of proposals for their improvement.

The originality of this article can be seen through the fact that for the first time made an integral analysis of existing legal business models of diffuse hotel industry in the Republic of Croatia, analyzes the legislative framework and give critical review of the restrictive minimum technical conditions governing diffuse hospitality. Also, the originality of this article is that it is the first time worked out a proposal to improve the legal requirements that would contribute to the greater prevalence of this business model as an acceptable tourist product in the Croatian tourist destinations.

This article, undoubtedly, represents a contribution to further scientific and professional research of diffuse and integral hotel as business models of association in tourism industry and models of sustainable and responsible resource management in a tourist destination. It provides an analysis and presentation of current business conditions, which may encourage future researchers of this topic to further research comparative analysis of Croatian and European diffuse hotels, quality standards in diffuse hotel industry, the acceptability of this model among

private renters in terms of common market approach, models of urban and rural diffuse hotels, marketing and promotional activities of diffuse hotels, etc.

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