

**Analysis and evaluation of albergo diffuso as sustainable business model:
Case study of ‘Ražnjevića dvori’**

**Analiza i ocjena difuznog hotela kao održivog poslovnog modela: Studija
slučaja ‘Ražnjevića dvori’**

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Abstract: Social entrepreneurship literature continuously emphasizes the need for innovations in business models as businesses gain more importance in achievement of sustainable development. However, there is a lack of practical examples of sustainable business models which prevents their faster adoption among entrepreneurs. This paper analyzes and evaluates alternative hospitality model - Albergo diffuso which is by many authors considered to be an example of sustainable business model. Albergo diffuso is used for tourism restart and revitalization of rural areas as it recovers old buildings, creates new jobs, involves local farmers and entrepreneurs in value creation network and preserves local traditions. This paper applied qualitative research approach to analyze the business model of Croatian Albergo diffuso ‘Ražnjevića dvori’ using the semi-structured interviews. Tourism is of huge importance for economies around the world but at the same time it produces a lot of negative environmental and social impacts on local communities. Therefore, sustainable innovation, especially in business models, is needed to achieve sustainable development of tourism. This research showed that Albergo diffuso can be regarded as a sustainable business model because it creates sustainable value, includes stakeholders in the value network and establishes mutual value flows and thirdly internalizes negative environmental and social externalities. Researchers conclude that with small adjustments, Albergo diffuso as sustainable business model could contribute to sustainable tourism development. However, conclusions cannot be generalized due to limitations of the study that include small research sample and application on single case and further research is required.

Keywords: Albergo diffuso, Sustainable business model, Stakeholder engagement, Sustainable tourism development, Sustainable value, Value flows

JEL Classification: L26, M21, Z320

Sažetak: Literatura o društvenom poduzetništvu kontinuirano naglašava potrebu za inovacijama u poslovnim modelima kako poduzeća dobivaju sve veći značaj u postizanju održivog razvoja. Međutim, nedostaje praktičnih primjera održivih poslovnih modela, što onemogućuje njihovo brže usvajanje među poduzetnicima. Ovaj rad analizira i ocjenjuje alternativni model hotelskog smještaja - albergo diffuso, koji mnogi autori smatraju primjerom održivog poslovnog modela. Albergo diffuso se koristi za ponovno pokretanje turizma i revitalizaciju ruralnih područja, jer obnavlja stare zgrade, otvara nova radna mjesta, uključuje lokalne poljoprivrednike i poduzetnike u mrežu stvaranja vrijednosti i čuva lokalne tradicije. U ovom je radu kvalitativnim istraživačkim pristupom analiziran poslovni model hrvatskog difuznog hotela 'Ražnjevića dvori' korištenjem polustrukturiranih intervjua. Turizam je od velike važnosti za gospodarstva diljem svijeta, ali u isto vrijeme donosi mnogo negativnih ekoloških i društvenih utjecaja na lokalne zajednice. Stoga je za postizanje održivog razvoja turizma potrebna održiva inovacija, a posebice veliki značaj imaju inovacije poslovnih modela. Ovo istraživanje je pokazalo da se albergo diffuso može smatrati održivim poslovnim modelom, jer prvo, stvara održivu vrijednost, drugo, uključuje dionike u vrijednosnu mrežu i uspostavlja međusobne tokove vrijednosti i, treće, internalizira negativne okolišne i društvene eksternalije. Autorice zaključuju da bi, uz male prilagodbe, albergo diffuso, kao održivi poslovni model, mogao doprinijeti održivom razvoju turizma, međutim, zbog ograničenja studije, koja uključuje mali uzorak istraživanja i primjenu na pojedinačnom slučaju, zaključci se ne mogu generalizirati i postoji potreba za daljnjim istraživanjem.

Ključne riječi: Albergo diffuso, održivi poslovni model, angažman dionika, održivi razvoj turizma, održiva vrijednost, tokovi vrijednosti

JEL klasifikacija: L26, M21, Z320

1 Introduction

Tourism is of huge importance for economies around the globe. Namely, prior to covid-19 pandemic travel and tourism sector accounted for 10.6% of all jobs (US\$ 334 million) and 10.4% of global GDP (US\$ 9.2 trillion) (WTTC, 2022). However, tourism does not come without its costs. Large masses of tourists have also 'brought degradation of the natural environment and exploitation of natural resources, overbuilding and loss of biodiversity, sacrifice of traditional values and abandonment of traditional crafts and loss of typical activities' (Vallone et al., 2013, p.22).

Negative effects are not just a result of tourist behavior, but rather the consequence of unsustainability of supply chain in which actors put profit in front of interests of local community and imperative to preserve the environment (Vallone et al., 2013). In order to achieve more sustainable tourism there is a need for innovation (Presenza et al., 2019). Sustainable development of tourism implies continuous adoption of innovative sustainable practices by stakeholders in the tourism industry (Santos et al., 2021). However, Olssen et al. (2017) argue that sustainability innovation should shift focus from 'single variable interventions', i.e. ideas and initiatives that are original, successful but too narrow in scope and too isolated from the broader system to innovative ideas and initiatives that deliberately address root causes of unsustainability. Sustainability innovation requires more holistic and integrated thinking (Evans et al., 2017) especially when it comes to redesigning business models. Sustainability innovation 'refers to novelty not only in technology, but also in processes, operating procedures and practices, business models, systems and thinking' (Szekely and Strebel, 2013 cited in Evans et al., 2017, p.599) and requires changes in several business areas such as 'stakeholder engagement, leadership, culture and resources management' (Adams et al., 2012 cited in Evans et al., 2017, p.599), implying the need for sustainability innovation of business models.

According to Lane (1994, cited in Cucari et al., 2019), the goals of sustainable tourism are: ‘to improve the material and non-material well-being of communities, to preserve intergenerational and intragenerational equity, to protect biological diversity and maintain ecological systems and to ensure the cultural integrity and social cohesion of communities’. Literature (Vallone et al., 2013; Cucari et al., 2019; Morena et al., 2017; Bačac & Demonja, 2021) argues that Albergo diffuso might be an adequate sustainable business model that could serve the need for more sustainable development of tourism. Albergo diffuso is social innovation originating from Italy (Confalonieri, 2011) which was created as a solution to social problem that appeared after the 1976’s earthquake in Friuli-Venezia-Giulia region that left villages devastated and depopulated (Romolini et al., 2017).

In order to socially-economically reconstruct the region they started discussing how to bring life back to these now uninhabited small villages (Morena et al., 2017). A technical working group proposed the idea of turning abandoned buildings into hotel accommodation and Giancarlo Dall’Ara engineered a new hospitality model: Albergo diffuso (Zupan Kože, 2018). What appeared as a radical social innovation for pressing problems, in the following years spread across Italy as a new business model in hospitality (Fissi et al., 2019). Albergo diffuso is the original Italian name for this type of accommodation. However, different researchers refer to this Italian phenomenon with different translations. Zupan Kože (2018:44) identifies several different names for AD in literature: diffuse hotel, diffused hotel, scattered hotel, widespread hotel, diffusion hotel, distributed hotel, difuzni hotel in Croatian, razpršeni hotel in Slovenian. This paper will use the original Italian term Albergo diffuso and its abbreviation AD.

Business administration literature increasingly emphasizes how firms should play an active social role in society (MacCallum&Haddock, 2009), especially with business model innovation. However, at the same time there is a lack of clarity and consistency in understanding and use of sustainable business models, which leads to lack of case studies that help entrepreneurs understand and identify alternative business models or to innovate existing ones (Evans et al., 2007).

This presents an obstacle to more rapid development of sustainable business models which could facilitate more sustainable development of the tourism industry. Albergo diffuso to date has been examined from legislative point of view (Bačac & Demonja, 2021; Zupan Kože, 2018), technical aspects (Confalonieri, 2011), management and organization (Presenza et al., 2015, Romolini et al., 2017), sustainability (Vallone et al., 2013; Cucari et al., 2019) and business model (Droli, 2013; Fissi et al., 2019). None of the researchers have tried to analyze Albergo diffuso through the lenses of sustainable business model. Therefore, the first objective of this paper is to analyze Croatian example of Albergo diffuso using the elements of sustainable business model which will fill the theoretical gap in Albergo diffuso literature and contribute to the literature of sustainable business models which lacks practical examples.

The second objective is to discuss how sustainable the business model of Albergo diffuso actually is, using the theoretical framework developed by Evans et al. (2017). This will help to answer the research question: ‘Can Albergo diffuso, as an innovative hospitality model, be used for sustainable development of tourism in Croatia?’

2 Theoretical framework

This section will set the base for analysis by describing Albergo diffuso as a hospitality model and providing understanding of sustainable business models and the elements used for analysis.

2.1 Albergo diffuso

National Association of Alberghi Diffusi lists following conditions for setting up an Albergo diffuso:

‘(1) The idea must be launched by local stakeholders; (2) Hotel services (reception, restaurant, etc.) must be provided; (3) There must be a sole management entity: a single entrepreneur or any other efficient form of association, with a cooperative being the most commonly used form; (4) There must be a minimum of seven rooms, located within 200 meters of each other and made available for a period of at least nine years; (5) The town or village where Albergo diffuso is located must offer a minimum of services such as a pharmacy, grocery store, etc.; (6) Albergo diffuso must take root in a lively, welcoming community that is open to sharing experiences with visitors’ (Albergo diffuso, 2022).

Concept of AD is unique because it is built on a thoughtful renovation that is connected to the history of the place, provides both authentic experience and hospitality services simultaneously involving a gentrification process that is an important part of heritage preservation (Presenza et al., 2019). Important to note is that Albergo diffuso is managed by a professional single actor (Vallone et al., 2013) that despite dealing with different buildings owners has to provide unified and integrated services which differentiates this type of hospitality from private accommodation (Bačac & Demonja, 2021). The mission of every AD is, and that makes it different from other hotels, ‘to create a feeling of being a temporary resident while enjoying services and comfort of a small hotel’ (Droli, 2019, p.14). Image 1 compares Albergo diffuso against ordinary hotel pointing out the difference in location of hotel structures.

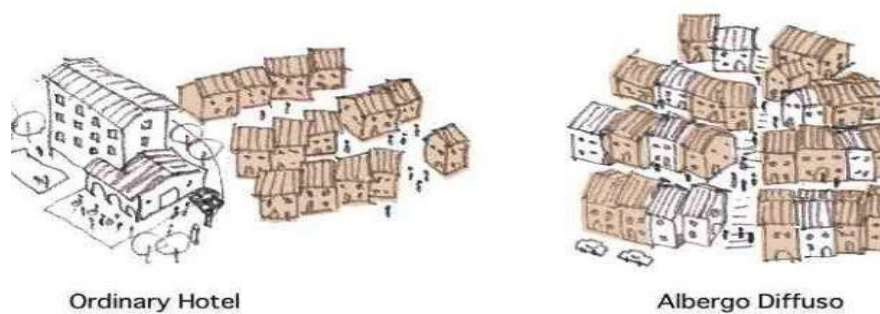


Image 1. Ordinary Hotel vs. Albergo diffuso

Source: www.albergidiffusi.it (2022)

Albergo diffuso is inevitably immersed in the local reality and depends on the support of the local community and quality of services and products stakeholders provide. Stakeholders of Albergo diffuso include: local administration, local community, local suppliers and buildings owners. Sometimes, AD is initiated by municipality or community as a way to revitalize the local resources (Morena et al., 2017), but most of the times AD is initiated, owned and managed by private entrepreneurs (Droli, 2018). The strategic goal of Albergo diffuso is to connect existing providers of tourism related services into a unique and competitive network that will provide complete tourism product (Bačac & Demonja, 2021) to customers who are characterized by their respect for nature (Vallone et al., 2013), search for authentic experiences (Presenza et al., 2019) and desire to explore local tangible and intangible heritage (Morena et al., 2017).

2.2 Sustainable business model

Widely recognized definition of business model was given by Teece: ‘A business model describes the design or architecture of the value creation, delivery and capture mechanisms employed.’ (Teece, 2010, p.191). In order to achieve sustainable development in the tourism sector, sustainable innovations in relation to new forms of value creation and development of new business models (Evans et al., 2017) are needed. Sustainable Business Models (SBMs) are ‘innovative architectures for the creation, delivery

and capture of value, which place environmental and social goals at the core of the business and direct firms' activities' (Stubbs, 2019). The focal point of a business model is value and defining characteristic of a sustainable business model is creation of environmental and social value other than economic value (Lüdeke-Freund et al., 2018).

Richardson (2008) identifies three elements of a business model: a) value proposition, b) value creation and delivery and c) value capture. To this, Barth et al. (2017) add value intention of an entrepreneur, which Attanasio et al. (2021, p.870) consider 'fundamental dimension to reach sustainable impact' because entrepreneur's intention is a key element to adopt a sustainable business model. Having in mind Richardson's (2008) and Barth et al. contributions, a sustainable business model should be analyzed through 4 elements: value intention, value proposition, value creation & delivery and value capture. Lozano (2018) claims that companies must embed sustainability holistically, systemically and integrally into all elements of the business model, meaning that not only sustainability should be an integral part of the value proposition, but also embedded in all activities, resources, practices and relationships. Sustainable business models go beyond traditionally emphasized economic value and include value creation for a wider set of stakeholders (Bocken et al., 2014). R.E. Freeman, as one of the founding fathers of stakeholder theory, claims that in order to understand a business one has to understand how customers, suppliers, employees, financiers, communities and managers interact and create value (Freeman, 2010). Therefore, to fully understand sustainable business models, researchers need to identify stakeholders, their relationships and mutual impacts. Hence, in understanding business model elements, value receiver, i.e. 'Customer' should be replaced with 'stakeholders'. Consequently, this paper will use the following understanding of business model elements:

- a) **value intention** is entrepreneur's intention to create sustainable value (Barth et al., 2017);
- b) **value proposition** is seen as benefits that a company will deliver to its stakeholders (Teece, 2010);
- c) **value creation and delivery** refer to how company uses resources and capabilities to create value (Richardson, 2008) and how that value is delivered to different stakeholders (Attanasio et al., 2021);
- d) **value capture** addresses how firm's stakeholders capture different forms of benefits (Short et al., 2014) and what are the costs that occur in the process (Teece, 2010).

Business models help researchers understand the existing ways of doing business and help them recognize innovations and needed change for the benefit of the tourism sector (Reinhold et al., 2017).

3 Methodology

According to *List of categorized tourist accommodation* there are only two hotels in Croatia categorized as *Albergo diffuso* (Croatian Ministry of Tourism and Sports, 2021). Due to the novelty of the AD model and scarcity of examples this research has exploratory nature. To accomplish the goals of the study, case study approach is applied. The choice of this approach was supported with facts that a) previous studies of *Albergo diffuso* (Fissi et al., 2019; Presenza et al., 2019) also applied case study as a research method, b) case study is used when there is a need for in depth study to understand managerial aspects, processes and answering why and how questions (Yin, 2014) and c) AD is so immersed in local reality it is hard to understand its complexity without using more subjective research approach such as case study (Cucari et al., 2019). However, in order to ensure validity (Yin, 2014) and robustness of results, researchers used multiple data collection sources and triangulation.

The object of a study was an Albergo diffuso called 'Ražnjevića dvori' situated in Polača, Zadar county in Croatia. Data was collected through secondary and primary sources. As per secondary sources, researchers conducted an extensive analysis of the academic and practical literature about AD in Croatia. Furthermore, data was collected through legislative documents, AD's website and press releases. In order to gain clearer understanding and in-depth insight into the complexity of the business model, researchers conducted two semi-structured interviews with stakeholders of the hotel. First interviewee is a member of a family that founded the Albergo diffuso, who is at the same time Head of marketing department of Ilirija S.C., a company that was entrusted with managing that hotel. The other interviewee was representative of a regional development agency called 'LAG Laura'.

Each interview lasted 30 minutes, they were held over Google meet video conference platform and they were recorded after receiving consent from interviewee. Interview questions were formed based on the extensive literature review on Albergo diffuso and sustainable business model and adapted to participants according to their role in relation to AD. Semi-structured interview started with a short presentation of research and interview purposes in order to provide context. Interviewer then started asking questions in predefined order but allowed the interviewee to expand on their answers by asking probing questions and providing pauses before transitioning to the next topic. Interviews were conducted in Croatian, transcribed in Croatian and conclusions of analysis were translated in English. Collected data was coded through top-down, i.e. deductive approach and categorized according to elements of sustainable business model.

4 Case study: sustainable business model of AD 'Ražnjevića dvori'

Ražnjevića dvori is the first Croatian Albergo diffuso situated in the historical center of Polača, village in the rural area of Ravni kotari. Ražnjevića dvori is owned by the Ražnjević family and managed by Ilirija S.C. The property represents a great example of an innovative hospitality model and plays an important role in promotion and development of this area.

Value intention

Literature emphasizes that Albergo diffuso business ideas are usually based on emotional connection between entrepreneurs and the community and the aim to contribute to the revitalization of the village (Fissi et al., 2019). The same applies in this case. When Ražnjević family started exploring their history they found out that their roots date back to 14th century and that their property was there for centuries. In the beginning they just wanted to rebuild their heritage that was devastated in the Homeland war, but during the years of renovation they realized the potential for touristic offer. They decided to adopt the Albergo diffuso model which they encountered on their trips to Italy and Spain. The interviewee said, 'We think that is the good way to revitalize the village' (interview 1). Therefore, this implies that the entrepreneur's intention was not only to gain profits but also to contribute to the development of his community and region which is aligned with sustainable business model requirements.

Value proposition

AD is suitable for rural villages and historic town centers where tangible (architecture and natural resources) and intangible (language, lifestyle, customs) heritage is worth preserving (Confalonieri, 2010). AD Ražnjevića dvori is part of the village of Polača that has around 1500 inhabitants, their six objects are scattered around the village. They have a reception, four apartments, two restaurants, few spaces for events, a swimming pool and a parking lot (Ilirija Biograd, 2022). Beyond providing

traditional hotel services, Albergo diffuso allows guests to be ‘village residents’ for a small period of time, to experience local tradition and locally sourced products. The mission of every AD is, and that makes it different from other hotels, ‘to create a feeling of being a temporary resident while enjoying services and comfort of a small hotel’ (Droli, 2019, p.14). The interviewee pointed out:

‘What guests liked the best is that they have everything, but at the same time they are in the village, alone, having their peace... They like that peace the most. And also, the local production, local fruits and vegetables. I can’t find the words to describe their happiness when we bring them a kilogram of tomatoes or watermelon from our own garden.’ (Interview 1).

Besides creating value for their customers AD Ražnjevića dvori also creates value for the local community. Since such a tourist offer is unique in this region and they were the first to try something like that, they were first to bring tourists to the regions which created opportunities for other entrepreneurs and local suppliers. Others saw their example, so they started their own initiatives as well. Interviewee said:

‘After we introduced this hospitality model, others tried out something similar as well. Not on such a high level though, but they opened accommodation objects, restaurants... Hence, this area, Ravni kotari, has developed a lot recently. And I think we were kind of pioneers in this. We brought first tourists to this area and then others started being interested and they could also do something as well’ (Interview 1).

Embedded into the mission of every Albergo diffuso model is the aim to revitalize the village by restarting the economic activity of local population (Droli, 2019) through influx of tourists. And Croatian Albergo diffuso is no exception.

Value creation

Value is created jointly with other stakeholders. The Ražnjević family is the owner of the property and provides tangible assets in terms of the structures, products that are grown on their land etc. and intangible assets in terms of values, customs and history. Interviewee shared that since the business outgrew their capabilities, they entrusted the management of the Albergo diffuso to the local hospitality firm called Ilirija S.C. Ilirija contributes to the development of AD with their knowledge and long-term experience in tourism, expertise of their employees and budget to fund marketing and promotional activities. The establishment of Albergo diffuso created employment opportunities for villagers. Interviewee said:

‘We have a lot of employees from Polača [...] they are involved and happy to contribute, they want this story to succeed because we are all involved in it, from cooks, waiters, to marketing and sales. We all want this place to be at the highest possible level because we understand how important that is both for our company and our region’ (Interview 1).

They also collaborate with local farmers and handcrafters. They use local fruits, vegetables, dairy and meat in their restaurants and cutlery and dishes from local artisans. Besides using local products and materials in production on the property, they also create opportunities for promotion and income for local wine-cellars, olive mills and other traditional activities present in the area through organized tours, collaborative events and as souvenirs for their guests. Interviewee mentions one particular example:

‘We offer a historic-wine tour, which includes visits to historic locations and 5-6 wine cellars in the area with whom we have very good relations. In the end, we also buy wine from them and we offer and sell it to our guests. It is a collaboration.’ (Interview 1).

In the service creation process they follow the tradition and they usually show the process to their guests if possible. They want their guests to see how food was prepared in the old days, they use traditional recipes and showcase collection of artifacts they have from their ancestors. In everyday activities they care about impacts on the environment. They have applied the rules set out on the company level and standards from eco-certificates to the Albergo diffuso as well. They have a department inside the company that takes care of environmental protection and they are in charge of the environmental impacts of the AD.

‘We really want everything that goes into the object to be eco-friendly and we are especially careful with that because guests really appreciate it. They expect that, they don’t want to see for example plastics when they come to an estate like that, so we have to go in that direction and we do.’ (Interview 1).

Value capture

The primary source of Albergo diffuso’s income is obtained from accommodation that is provided to the guests. However, interviewee shared that having just accommodation is not profitable, so they provide food and beverages services, host different types of events and create promotional packages that include experiences from the region. Their property is suitable for weddings, conferences, team-buildings and private dinners. So that brings a lot of people and creates additional income streams. Droli (2019) lists ten possible revenue streams for AD: accommodation services sold, in-house food and beverage services provided, catering services sold, margins on sales of local products, margins on sales of tourism experiences sold, margins on sales of food at local events, revenues from membership fees, margins on savings obtained by the Albergo diffuso’s partners, special projects funds captured and revenues for sponsorships. When approached with the question regarding financial sustainability, interviewee shared:

‘We did not have problems with that exactly because we left the management to such a big company like Ilirija that has its own employees, marketing and sales. If we did everything by ourselves, we would certainly face problems. But in this way, we did not.’ (Interview 1).

This is in line with literature that points out high costs of marketing and promotion in terms of money, time and energy, which can be excessive for small AD entrepreneurs who are not backed-up by experienced management entities.

This analysis of the sustainable business model of Albergo diffuso through elements of business model, serves as foundation for evaluation and discussion if Albergo diffuso is in fact sustainable business model using the theoretical framework developed by Evans et al. (2017).

5 Discussion

This section will evaluate AD’s business model according a unified theoretical perspective developed by Evans et al., (2017) which can be used for understanding and evaluation of SBMs. The framework is based on analysis of sustainable value, value flows among multiple stakeholders, value networks, consideration of stakeholders’ interests and responsibilities and product-service systems. Evans et al., (2017) point out following propositions of a sustainable business model innovation:

‘P1: Sustainable value incorporates economic, social and environmental benefits conceptualized as value forms.

P2: SBMs require a system of sustainable value flows among multiple stakeholders including the natural environment and society as primary stakeholders.

P3: SBMs require a value network with a new purpose, design and governance.

P4: SBMs require a systemic consideration of stakeholder interests and responsibilities for mutual value creation.

P5: Internalizing externalities through PSS enables innovation towards SBMs (Evans et al., 2017, p.605)'.
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Sustainable value

Sustainable business models create sustainable value which consists of social, environmental and economic value together (Evans et al., 2017).

As positive social impacts of AD, researchers points out improvement of market visibility of rural hamlets (Doli, 2019), slowdown of youth drain and depopulation (Morena et al., 2017; Vallone et al., 2013) because investing in AD means increase in local employment (Bačac & Demonja, 2021) and entrepreneurial activities (Cucari et al., 2019; Zupan Kože, 2018) in rural areas bringing social value in form of community development and secure livelihood which is also evident from Ražnjevića dvori case. AD proved to be an efficient instrument for developing areas outside the traditional tourist routes and local economy by participating in local food and crafts networks and in organization of events (Romolini et al., 2017). Albergo diffuso 'promotes heritage and it is oriented to the recovery of a locality's cultural identity and to the revival of traditional events' (Vallone et al., 2013, p.22). The representative of the regional development agency strongly agrees that Ražnjevića dvori has contributed to the development of local territory and preservation of tangible and intangible heritage (Interview 2). At the same time, rural areas are characterized by clean air, tranquility at night, sense of security, peace and authentic lifestyle. If tourists start flocking due to attractiveness of AD that gives them possibility to experience new culture, be part of local community and experience local resources then AD is actually damaging the equilibrium of local community with negative impacts like noise and light pollution during night, lack of peace, disturbance of tranquility, bringing stress and influence of foreign cultures/languages and ultimately driving it away from sustainability (Droli, 2019). Interviewee 1 pointed out that some residents complained of noise and disturbance but that overall, the local community perceived AD as creating more benefits than costs for their village.

Some authors claim that AD has a very limited impact on the environment, especially because in comparison to conventional hotels it does not require construction of new buildings and does not bring new culture or new architectural style, rather it just renovates existing structures (Presenza et al., 2019; Confalonieri, 2010). Moreover, AD is able to 'increase accommodation capacity of small towns without diminishing their carrying capacity' (Confalonieri, 2010, p.685). Furthermore, positive environmental impact could come from effective recovery or recycling of old materials in building process (Presenza et al., 2019) and use of traditional materials and building techniques as Interviewee 1 pointed out.

'We started by renewing the old. We even embedded the stone that was demolished, and what we lacked we substituted with stone from the local supplier, from Benkovac. Nothing was imported. Even the workers were locals, stonemasons from the Benkovac area. [...] Same with the furniture. Local carpenter created everything in traditional ways and in traditional style. We also have some modern stuff, mostly sanitary facilities and the swimming pool where we added some glass, but everything else is reflecting tradition'.
(Interview 1).

Moreover, benefits for the environment come from using local materials, use of environmentally friendly products and use of local food products (Cucari et al., 2019; Ražnjevića dvori case). However, it can be argued that a new influx of tourists could have a negative impact on the environment, particularly in the form of pressure on water and energy systems (Droli, 2019), pollution and congestion (Confalonieri, 2010). Research shows that 'less than 40% of AD are using renewable energy sources, 50% are working on waste reduction, 41% use recycled raw materials and 22% harvest rainwater'

(Romolini et al., 2017, p.69). These numbers indicate that AD might have negative impacts on the environment especially because dispersed management of buildings require much more energy for heating and cooling and other resources because it is hard to achieve economies of scale (Droli, 2019). These negative impacts can be avoided by adopting low environmental-impact technologies like in example present in the research done by (Morena et al., 2017).

Costs for management entities can be very high due to high labor costs, energy costs, cleaning and promotion and advertising leading to impaired enthusiasm of entrepreneur and management entity (Droli, 2019). A lot of feasibility studies decide against this model due to the negative profitability ratio over the initial five to six years (Droli, 2019). However, Droli (2019) claims that such studies underestimate revenues coming from sales margins on activities and products provided by partners and they ignore the gross operating profit per available room which is claimed to be ‘the most important achievement of any AD’ (Droli, 2019, p.191). As interviewee 1 pointed out, they would struggle with profitability if they offered only accommodation. To cope with that, they organize a lot of events and offer a full package of activities, experiences and local products which enables them to be profitable. Studying Italian ADs, Fissi et al. (2019) came across cases that had difficulties with maintaining financial viability due to high cost of renovation, high taxation and lack of policies to facilitate the AD model.

Value flows and Network

Innovations of sustainable business models are related to changes in regard to relations with stakeholders and their participation in value creation (Evans et al., 2017). Attanasio et al. (2021) point out that value used to be a one-way flow from company to customers, however now value is created by joint actions with stakeholders who are both value creators and value recipients. ADs usually cooperate with local producers to offer quality, traditional and authentic flavors to their guests (Prezenza et al., 2019). By doing so, local producers participate in value creation and receive value in the form of stable income. Furthermore, local residents participate in value creation by providing experience of authentic lifestyle and receive benefits in terms of restoration of tangible and intangible heritage. Sustainable business models ‘embed economic, environmental and social flows of value that are created, delivered and captured in a value network’ (Evans et al., 2017, p.597). This shift in perception of importance of stakeholders impacts the shift from short-term, transactional expectations of stakeholder relationships to long-term, mutually beneficial and enduring relationships with firm’s stakeholders. This is in line with research by Brlecic Valcic and Bagaric (2015) who argue that in order to sustain value retention in hotel industry there is a need to establish long term connections between customer, service provider and society. Furthermore, value in hotel industry is co-created by customer and company together (Brlecic Valcic & Bagaric, 2015) and in order to ensure value capturing over long term there is a need to constantly improve customer satisfaction. Brlecic Valcic and Bagaric (2015) argue that guest satisfaction can be increased by personalizing value co-creation experiences, innovating experience environments and strengthening experience network between hotel and destination. This is true in the case of *Albergo diffuso* where a touristic product is created by integrating contributions from multiple stakeholders. In order to satisfy tourist interests, as interviewee 2 mentioned, AD’s management has to establish long term relations with local suppliers that will provide traditional and quality food, employees that will be motivated to provide excellent service, local community that will provide authentic experience of village life and other stakeholders present in the territory. In *Ražnjevića dvori* this kind of network is present and well-developed, and value is co-created in interactions between guests and all these different actors.

Product-service systems (PSS)

PSS are seen as a ‘combination of tangible products and intangible services that are jointly capable of fulfilling final customer needs’ (Tukker, 2015 cited in Evans et al., 2017, p.603). These systems

consider a wider set of externalities, both in terms of social and environmental impacts as part of the value network and aim to internalize it by monetizing it (Evans et al., 2017). If these principles would be applied to case of Albergo diffuso, it can be claimed that AD is an example of PSS, because the product for customer comprises both of tangible aspects like accommodation, food, handicrafts etc. and intangible in terms of experience, emotions and authenticity as mentioned many times above. Secondly, AD's mission is to revitalize villages by creating economic opportunities. AD internalizes externalities in terms of ensuring that revenues are used for recovery of buildings, investments in environmentally friendly technology, creating new jobs and business opportunities for other entrepreneurs. Hence, Albergo diffuso can potentially be regarded as a PSS system since owners and managers should (if they apply the model right) be accountable for social, environmental and economic issues emerging from touristic activity.

6 Conclusion and recommendations

This paper aims to contribute to the social entrepreneurship and business administration literature by providing a practical example of a sustainable business model. The paper aimed to analyze the business model of Albergo diffuso through four elements of business model: value intention, value proposition, value creation and value capture. The second aim was to evaluate and discuss this model according to the theoretical framework developed by Evans et al. (2017). Based on the analysis and evaluation, we conclude that Albergo diffuso is a sustainable business model because it fulfills all propositions by Evans et al. (2017) and we can positively answer the research question 'Can Albergo diffuso, as innovative hospitality model, be used for sustainable development of tourism in Croatia?'. Albergo diffuso can be used for sustainable development of tourism because it helps maintain ecological systems by adapting old structures instead of building new, helps improve material well-being of communities by creating new jobs, opportunities and income for local entrepreneurs and rebuilding local infrastructure and is ensuring cultural integrity and social cohesion of communities by connecting local stakeholders in a value creation network and preserving local heritage and village's tradition. However, there are still some sustainability issues that need to be closely managed if this model is to be widely applied for development of tourism. AD managers will have to ensure that there are no negative impacts on non-material well-being of communities by restricting the number of tourists, the noise and incidents with local inhabitants and secure that everyday hospitality process and practices do not negatively impact environment by implementing new technology to preserve energy and water and design circular loops for waste management. Finally, it should be noted that the limitations of this paper relate to single-case research and a small number of primary sources of data collection. If results are to be generalized, there is a need for multi-case research, possibly in other countries.

From when it was first introduced by Dell'Ara in late 1980s, the model of Albergo diffuso has been spread around Italy and translated to other countries, receiving at the same time a lot of attention in literature as an innovative business model. Nevertheless, there is a scarcity of real life examples. In Italy there are around a hundred AD, and in Croatia there are only two. If this model contributes to the sustainable development of both tourism and rural areas, then researchers should look into what are the obstacles that prevent Albergo diffuso from becoming a mainstream hospitality model and try to find solutions for overcoming such challenges.

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