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STRATEGIC NETWORKS OF SMALL HOTELS – EVIDENCE FROM CROATIA

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Abstract: Most tourism theoreticians and practitioners agree that small hotels present one of the most vital segments of accommodation facilities arguing that they are able to react more promptly and effectively to market changes and capable of offering high-quality, differentiated and personalized services. They also agree that they are facing specific problems arising from their size which can concisely be summed in difficult access to all business resources. Thus, it is believed that their survival and long-term success depend upon their ability to strengthen their market position while preserving their core strengths - independency and flexibility. The main idea of this paper is that networking, especially in horizontal direction, is the solution. To support the idea, an empirical research was conducted with the goal of determining the extent of implementation and the features of networking i.e. cooperation in the small hotel sector in Croatia.

Key words: networking, tourism, small hotels, Croatia.

INTRODUCTION

In recent years in Croatia an increasing attention has been drawn to the phenomenon of small hotels which have received significant support from the state. Although importance of these accommodation facilities is beyond discussion, it is also a fact that their market position is rather specific and unfavourable compared to other types of hotels. For that reason, it is believed that besides relying on governmental support, they should also pull their strengths together and cooperate in order to improve their position. In fact, effective networking may turn out to be not only a possibility but a necessity for their survival.

1. FIRM NETWORKS – DEFINITION AND THEORETICAL BACKGROUND

Networks are nowadays used in many areas of human life. That often leads to confusion about what the term stands for. Therefore, precise defining is an inevitable beginning of any serious discussion on networks, which have always been an interesting topic for academics, especially those engaged in economic and management

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theory². An overview of the literature reveals an abundance and heterogeneity of approaches to this phenomenon. The organizational-behaviouristic school emphasises the social character of the network and studies the division of roles, interdependence, trust and norms as the key elements that define behaviour in the network (Benham 1995, 4). In the institutional economics firm networks are defined as a hybrid organizational form between the market and the hierarchy while in the industrial organization study networks are seen as a coordination form that acts as a counterpart to the dichotomy of the market and the hierarchy (Williamson 1991, according to Frey 2002, 24). In strategic management networks are a way of conquering the aimed market position through which firms, using the "zero sum game", try to improve their competitive position on behalf of that of their competitors (Benham 1995, 16).

Still, a unique and generally accepted definition of network was not delivered. The author embraces the descriptive definition given by Sydow who emphasises the strategic importance of network saying that "the strategic network presents to the realization of competitive advantages aimed, polycentric, by one or more enterprises strategically lead organizational form of economic activities between market and hierarchy characterized by complex-reciprocal, rather cooperative than competitive and relatively stable relations between legally independent and economically interdependent enterprises." (Sydow 1992, 82).

As far as theoretical explanations are concerned, most frequently used are the transaction costs theory, the game theory and the approaches of strategic management. In transaction costs theory, the reason for interorganisational cooperation is found in potential for transaction costs reduction for the firms involved (Sydow 1992, 143; Frey 2002, 52). The game theory explores the problems of strategic interdependence of firms and using the famous prisoner's dilemma demonstrates the terms in which cooperation leads to better results compared to individual action (Axelrod 1984) and emphasises trust as an important element upon which cooperative arrangements are based. In the strategic management literature, firms' networks are seen as a potential source of competitive advantages for the firms involved. As such, they are defined as "long term purposeful agreements among distinct but related for-profit organizations that allow those firms in them to gain or sustain competitive advantages *vis-à-vis* their competitors outside the network" (Jarillo 1988, 32).

2. SMALL HOTELS – DEFINITION AND CONTEMPORARY MARKET POSITION

On the other hand, there is also the issue of small hotel definition. Namely, as opposed to common criteria used for defining small enterprise, such as the balance sum after the loss deduction, annual sales amount and annual average of number of employees (Cetinski 2003, 4), the hotel sub-sector classification is often based upon the number of rooms or beds in the establishments. These are also not generally accepted

² An analysis made by Oliver and Ebers in 1998 showed that only in the period 1980-1996 in four distinguished American journals 158 scientific articles on the subject of interorganizational relations and networks were published (Merkle 1999:4).

and vary substantially so the upper limit for small hotels is usually between 40 to 70 rooms; for middle-sized hotels from 70 to 200 rooms and for large hotels more than 200 rooms (Avelini-Holjevac and VrtoduSic 1999, 43-49; Avelini-Holjevac 2002, 128). Given the size and the structure of Croatian hotel industry, threshold level applied in this article is 100 beds.

There is a general consensus about the importance of small firms in tourism, due to their high share in the industry and advantages inherent to their size. Most authors agree these advantages are flexibility, competition stimulation, wide variety of services offered, services and products with character as opposed to the more and more standardized service in mass tourism and ability to initiate multiple linkage effects in the local economy (Armstrong and Taylor 2000, 64; Bastakis et al. 2004, 151; Buhalis and Cooper 1998, 324; Shaw and Williams 1998, 235). These are also attributed to small hotels but in fact the core strength of small hotels' in comparison to their big counterparts and hotel chains is personal touch i.e. the ability to provide individualized, differentiated service. Namely, recent developments in tourism demand manifested through transformation from the mass, extensive, so-called "hard tourism" into the intensive, so-called "soft-tourism" (cf. Petric 2003, 83-85; European Commission 2003, 13) favour this kind of tourist services. Contemporary tourists look for accommodation with home atmosphere and tailor-made services and that corresponds to the profile of small hotels. As a result, one of the main features of contemporary tourism offer is the emergence of small and medium sized accommodation facilities, especially those of family type.

Although current tourism market trends go in favour of small hotels, their size is also the source of their major problems. While it enables them to provide services shaped by their guests' individual needs, it also makes their access to necessary resources (finance, staff and material inputs) more difficult and costly and puts them in an unfavourable negotiation position towards other subjects of tourism offer and governmental bodies. Therefore it can be concluded that the small hotel is deprived of advantages generated by size i.e. its biggest advantage is at the same time its biggest flaw.

In order to make the best of this tricky situation, small hotels need to implement strategies that will enable them to overcome the difficulties they encounter while preserving or even strengthening their advantages. That is exactly why networking is seen as a potential solution - working together strengthens their market and negotiating position while enabling them to preserve the necessary independency and flexibility in individual business. The networking strategy is frequently used as a competitive tool by small hotels in other countries (Frey 2002; OECD) but the scope of its implementation in Croatia has not been researched yet. Therefore, the empirical research was conducted with the goal of determining the extent of implementation and the features of cooperations in the sector of small hotels in the Republic of Croatia.

3. HOTEL INDUSTRY AND SMALL HOTELS IN CROATIA

Croatian hotel sector is characterized by a big proportion of large hotels and respectively, large average number of beds in hotel establishments, especially compared to other Mediterranean countries considered as country's main competitors (Table 1).

In recent years a significant increase in the number of small hotels is evident, mostly due to the incentive program "Incentive for success" launched by the Ministry of tourism in 2002. During the eight years of programme, 434 credits worth 1.58 billion kunas were realized out of which 274 were investments into hotel-type establishments resulting in employment of around 3636 people (<http://www.mint.hr/UserDocsImages/080901-stanje-pzu.pdf>;01.10.2008.).

Table 1: Average number of beds in hotels and similar establishments in selected countries

Country	Average number of beds in hotels and similar establishments (2006)
Croatia	178*
Italy	61.8
Spain	88.23
France	69.15
Austria	40.78
Greece	76.06

* data for 2008

Sources.: <http://www.mint.hr/UserDocsImages/080702-ukup-hoteli.pdf> (09.10.2008); Europe in figures – Eurostat yearbook 2008, p. 310, available from http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-CD-07-001/EN/KS-CD-07-001-EN.PDF (09.10.2008)

Accordingly, the share of small hotels in the overall hotel sector is increasing (Table 2).

Another important fostering factor is the national Association of Small and family hotels whose work and lobbying had significant effect upon the realization of the above programme and the overall support of the state. In fact, the Association itself is an excellent example of horizontal networking³ and a pioneer of its sort in Croatian accommodation sector⁴.

³ Horizontal cooperation refers to cooperation with firms engaged in the same economic activity. In this case, it would mean hotels cooperating with other hotels. Vertical cooperation refers to cooperation with firms belonging to a same value chain, i.e. hotels cooperating with tour operators or transport firms while diagonal cooperation denotes cooperation with firms from other economic sectors like hotel cooperating with insurance companies or fashion stores.

⁴ For further information see <http://www.omh.hr/default.aspx?id=76>

Table 2: The structure of Croatian hotel industry

Hotel size	2005.		2007.	
	Number of hotels	Share (%)	Number of hotels	Share (%)
Small hotels (up to 100 beds)	240	47.43	276	53.28
Medium-sized hotels (101-500 beds)	230	45.46	205	39.58
Large hotels (more than 500 beds)	36	7.11	37	7.14
TOTAL	506	100	518	100,00

Source: Author's calculation based on the list of categorized hotels on 13.10.2005 and on 13.06.2007 available at <http://www.mint.hr/default.aspx?ID=2505>

4. EMPIRICAL RESEARCH ON NETWORKING OF SMALL HOTELS IN CROATIA

4.1. Research design

The empirical research was conducted by the use of mail questionnaire sent to all small hotels in the Republic of Croatia based on the list of the categorized hotels of the Ministry of sea, tourism, traffic and development (www.mmtpr.hr). At the time, the list included 249 hotels with up to 100 rooms which were all sent the questionnaire addressed to the hotel owner/manager. The research was conducted in the period from December 2005 until the end of February 2006. Response rate was 26.05% which is considered to be statistically relevant. The collected data were processed by the use of Microsoft Excel and SPSS program packages.

The main research objective was to determine the extent, forms and characteristics of cooperations⁵ of small hotels in Croatia. In order to achieve it, following hypotheses were tested:

H1: Small hotels in Croatia do not use networking sufficiently as an instrument of their goals achievement.

H2: Cooperations small Croatian hotels engage in are primarily of horizontal direction, based upon front-stage activities and characterized by a low level of mutual interdependence.

H3: Reasons why cooperations are rather undeveloped are primarily low level of knowledge about them and mental barriers (prejudice, fear, avoiding the dependence).

⁵ The pilot questionnaire revealed that it is preferable to use the term «cooperation» rather than «networking». Namely, in business practice, networking is usually associated with use of information and communication technologies and thus it would cause misunderstanding.

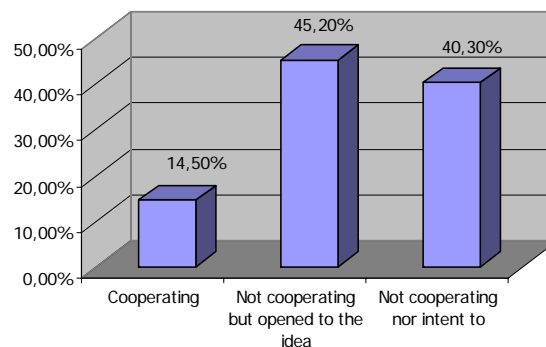
H4: Significant incentives to cooperative relations forming would be diverse professional and financial help provided by the formal bodies (Tourism Board, local government).

4.2. Research results

Most of the surveyed hotels belong to the three star category (58.10 %), a quarter the two star category (25.80 %) while the other three categories make only 16.10 %. Most hotels (90.16 %) are opened all year and are mostly located on the seaside (50.61%). Majority have 51-100 rooms, average annual occupancy of 151-200 days and employ up to 10 employees. Also, there is a small prevalence of family owned hotels and in more than 60% hotels the managerial function is performed by the owner itself.

Research results have shown that only 14.5 % of small hotels are involved in cooperative arrangements with other firms⁶ (Figure 1). For comparison, similar research conducted in Switzerland in 2002 showed that the percentage of small and medium-sized hotels engaged in cooperation was 63.9% (Frey 2002: 174).

Figure 1: Small hotels' involvement in cooperation



Source. Author's research

Crossing the status/willingness to cooperate with number of beds it is evident that the share of hotels that cooperate, as well as of those that do not cooperate but are opened to the idea, increases with the increase of number of beds in hotels. These two groups make 40% of hotels with less than 25 beds, 47.6% of hotels with 26-50 beds and almost 60% of hotels with 51-100 beds. In order to test the possible statistical significance of the relationship between these two variables, Spearman's correlation coefficient was applied. It confirmed statistically significant correlation at the level of empirical significance of 2%.

⁶ Low level of alliances involvement by Croatian tourism firms was also reported by Zakarija (2003, 1740) whose results suggest that only a quarter of tourism firms are involved in strategic alliances while one third cooperates in less important projects.

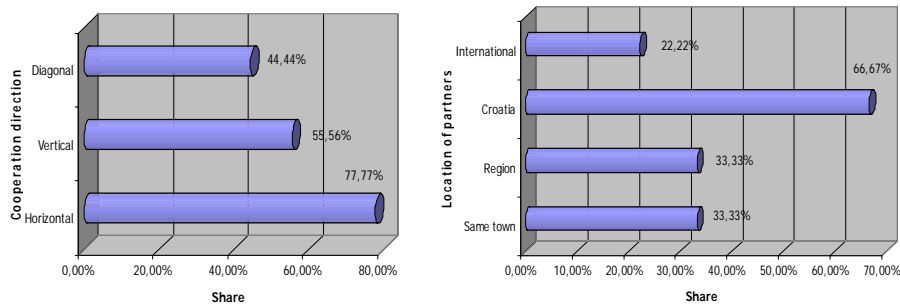
Examining the current engagement of hotels in cooperation in connection to the number of employees, positive correlation up to the level of 100 employees is noticeable, after which the number of cooperating hotels decreases to zero. Possible statistical significance of the relationship between these two variables was tested applying Spearman's correlation coefficient which showed that the significant correlation exists at the level of empirical p-value of 0.8%. Therefore, the results indicate that the hotel size and number of employees (up to 100) are positively correlated to engagement in cooperative activities. Finally, no correlation has been found between the willingness to cooperate and the average hotel occupancy.

4.2.1. The characteristics of small hotels cooperation

Most surveyed hotels (77.77%) are engaged in horizontal cooperations which is the case found in most countries. This finding is quite expected since in the business practice vertical and diagonal cooperation are mostly formed by extending the existing horizontal groups.

As far as location is concerned, most of the sampled hotels are engaged in national cooperations, specifically in the National Association of Small Family Hotels. As far as the contractual form of cooperation us concerned, the research revealed the prevalence of cooperation based on partial agreement. After it, cooperation with mutual enterprise and cooperation without any form of contract follow. Other forms of cooperation with higher degree of interdependence are not found at all. These results clearly show that Croatian small hotels are not willing to give up their business autonomy and therefore prefer cooperation forms with lower degree of connection intensity and lower interdependence.

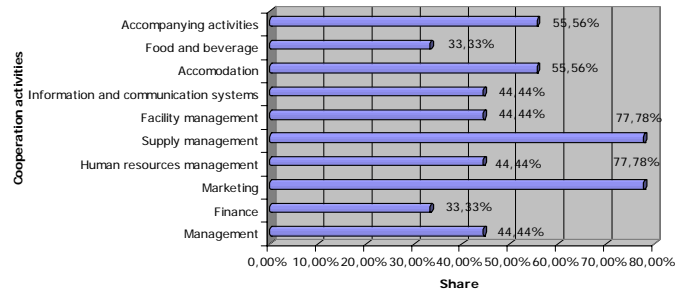
Figures 2 and 3: Cooperation direction and location of partners



Source. Author's research

An important network feature is the range of activities it involves. The empirical results show that Croatian small hotels most often cooperate in the area of marketing and supply management (77.78%), and in the area of guest accommodation and accompanying activities. At the same time, they rarely cooperate in the area of food and beverages and finance.

Figure 4: Cooperating activities



Source. Author's research

Research results revealed that respondents perceive "rules of the game within the cooperation" as the most important elements of *cooperation's success* and they all rate it as "very important" (Table 3). Next by importance is "trust among network partners with the average rate of 4.67. High rates have also been given to "even distribution of duties among partners" and "mutual information exchange" while, surprisingly, "evaluation and control of results" has received the lowest average rate.

Table 3: Elements affecting cooperation success

	Most frequent rank	Average grade
Clear rules of cooperation	5	4.44
Detailed planning	4	4.00
Clear rules of the game	5	5.00
Even distribution of duties and responsibilities	5	4.56
Mutual information exchange	5	4.56
Intense contacts	4,5	4.22
Trust between the partners	5	4.67
Evaluation and control of results	4	4.00

Source: Author's research

On the other hand, as the element with the highest impact on *cooperation failure*, respondents name "unwillingness to except obligations", which received highest rate from almost 70 % of cooperating hotels. Following are elements "low learning capability of partners" and "desire to make fast results". Interestingly and contrary to theoretical explanations, hotels find that egoism, envy and lack of trust are characteristics of partners that have a rather weak influence on cooperation failure.

Table 4: Elements affecting cooperation failure

	Most frequent rank	Average grade
Desire to make quick results	5	3.75
Envy and lack of trust	5	3.125
Too high expectations	4,5	3.5
Low learning capability of partners	5	4
Egoism	5	3.25
Pasivity	5	3.375
Unwillingness to except obligations	5	4.125
Inequal development of partners	4	3.875

Source: Author's research

4.2.2. Elements affecting the decision to cooperate

Questions in this section were addresses to all hotels, regardless of their present involvement in cooperation. Summary of findings is given in Table 5.

Small hotels' managers perceive better market access (average rate 4.21; 50% of hotels rate it with 5) as the most important cooperation advantage. Following are know-how advantages and better usage of resources. Advantages that are perceived as less important are flexibility and time savings. Additionally, differences in perception of importance of these elements among hotels with different attitude towards cooperation were looked into. The analysis has shown that advantages with the highest difference in perceived importance among cooperating hotels, cooperation sceptics and hotels opened to the idea of cooperation are those of better use of resources, time savings and flexibility development. In order to statistically test the possible statistical significance of these relationships, F-test with variance analysis (ANOVA) and Kruskal-Wallis test were used. Both confirmed statistically significant difference in arithmetic middles and average ranks of the three advantages in relation to the attitude of hotel towards cooperation.

The research results clearly indicate that most Croatian small hotels are, for the time being, not involved in any form of cooperation but are opened to the idea. The share of such hotels is three times higher than of those involved in cooperations. This leads to the conclusion that these hotels would, in adequate circumstances, be willing to collaborate with other firms and that stresses the importance of careful programming and implementation of incentive measures. For this reason, hotels were asked which activities would be an important impulse for them to become "cooperative". The results show that it would be professional and financial help to cooperations in the area of quality improvement and during the big capital investments. Professional and financial help in the process of cooperation founding is also perceived as significant incentive while all other measures were seen as rather unimportant. Kruskal-Wallis test confirmed no significant difference in importance in connection to hotel's attitude towards cooperation.

Table 5: Summary of data for questions on advantages of cooperation entering, factors influencing the decision not to enter cooperation and potential cooperation incentives

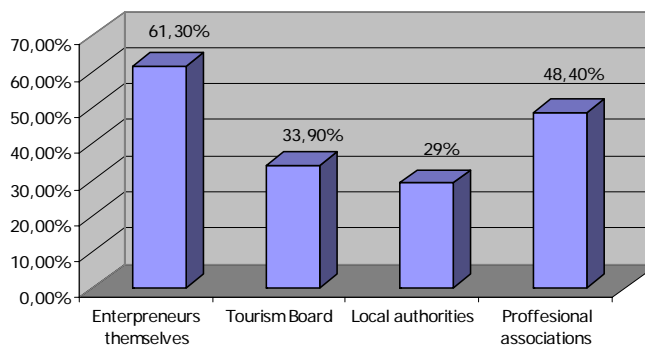
		GRADE FREQUENCY (%)					AVERAGE RATE			
		1	2	3	4	5	K	N	S	A
Advantages derived by cooperation entering	Better resources use	6.5	1.6	19.4	35.5	37.1	4.78	4.07	3.52	3.95
	Know-how advantages	4.8	3.2	19.4	32.3	40.3	4.44	4.04	3.8	4.0
	Costs reduction	4.8	6.5	25.8	21.0	41.9	4.11	3.96	3.72	3.89
	Better market access	4.8	1.6	16.1	22.6	54.8	4.78	4.21	4.00	4.21
	Time savings	8.7	6.5	25.8	35.5	24.2	4.33	3.82	3.12	3.61
	Flexibility development	9.7	4.8	35.5	25.8	24.2	4.33	3.54	3.16	3.50
Factors influencing the decision not to enter cooperation	Business results satisfaction	14.5	6.5	22.6	21.0	35.5	3.44	3.5	3.68	3.56
	Insufficient knowledge about cooperations	8.1	12.9	35.5	27.4	16.1	3.89	3.39	3.00	3.31
	Uncertainty about benefits of cooperation	6.5	9.7	37.1	29.0	17.7	3.56	3.29	3.52	3.42
	Lack of information about cooperations	11.3	8.1	25.8	41.9	12.9	3.56	3.54	3.12	3.37
	Fear of only giving, not exchanging information	16.1	3.2	35.5	29.0	16.1	3.44	3.25	3.20	3.26
	Prejudice	30.6	4.8	38.7	16.1	9.7	2.89	2.86	2.44	2.69
	Avoiding the dependence	16.1	14.5	29.0	25.8	14.5	3.33	3.04	3.04	3.08
	Lack of time	24.2	6.5	46.8	16.1	6.5	2.89	2.89	2.52	2.74
	High cooperation costs	14.5	14.5	33.9	29.0	8.1	2.78	3.11	3.00	3.02
Potential cooperation incentive activities	Information offensive	6.5	8.1	25.8	41.9	17.7	3.44	3.89	3.24	3.56
	Stock of cooperations	4.8	9.7	33.9	35.5	16.1	3.78	3.61	3.24	3.48
	Workshops	4.8	8.1	35.5	37.1	14.5	4.00	3.4	3.28	3.48
	Mentorship and coaching	4.8	9.7	33.9	38.7	12.9	3.89	3.54	3.20	3.45
	Professional and financial help in the process of cooperation founding	6.5	4.8	22.6	35.5	30.6	4.22	3.71	3.72	3.79
	Help in the area of information and communication technology	8.1	4.8	25.8	35.5	25.8	4.11	3.79	3.36	3.66
	Professional and financial help during capital investments	4.8	3.2	21.0	29.0	41.9	4.33	4.00	3.88	4.00
	Professional and financial help in the area of quality management	4.8	3.2	17.7	33.9	40.3	4.56	4.07	3.76	4.02

Legend: C – hotels cooperating at the moment
 N – hotels not cooperating at the moment but opened to the idea of cooperation
 S – cooperation sceptics i.e. hotels not cooperating at the moment and with no intent to do so in the future
 A – all respondents

Source: Author's research

As far as subjects to be in charge of incentive measures are concerned, most of small hotels owners/mangers (61.30%) think that entrepreneurs themselves should be in charge of them and 48.40% think that it should be in the domain of professional associations. Having in mind that these are in fact associations of enterprises i.e. entrepreneurs, this just adds weight to their “trust in themselves”. Local government and Tourism Board did not gain too much trust so it is obvious that small hotels don’t rely upon their support and some respondents have explicitly written that as a comment to the questionnaire.

Figure 5: Subjects to be in charge of cooperation fostering



Source: Author’s research

4.3. Hypotheses testing

Research results indicate that H1 and H2 can be accepted, H3 cannot be accepted and H4 can partially be accepted (Table 6).

Table 6: Hypotheses testing results

Hypotesis		
H1	Small hotels in Croatia do not use networking sufficiently as an instrument of their goals achievement.	+
H2	Cooperations small Croatian hotels engage in are primarily of horizontal direction, based upon front-stage activities and characterized by a low level of mutual interdependence.	+
H3	Reasons why cooperations are rather undeveloped are primarily low level of knowledge and mental barriers (prejudice, fear, avoiding the dependence).	-
H4	Significant incentives to cooperative relations forming would be diverse professional and financial help provided by the formal bodies (Tourism Board, local government).	+/-

Source: Author’s research

Hypothesis H1 is accepted because only 14.50% of the sampled hotels are at the time using this business strategy. The H2 is also accepted since three out of four most often collaborative activities fall into the category of front-stage activities. Furthermore, the hypothesis is confirmed by the findings on directions and intensity of small hotel's cooperations.

Hypothesis H3 cannot be accepted because the most important elements for not entering cooperations are satisfaction with business results and uncertainty about benefits of cooperation while low level of knowledge and mental barriers, as presumed by the hypothesis, are perceived as less important. Finally, H4 can only be partially accepted. Namely, the research findings confirmed that the most appreciated cooperation incentives would be diverse professional and financial help to cooperations but they did not confirm that the subjects to be in charge of them are formal bodies like Tourism Board and/or local government, but to the contrary, that it should be entrepreneurs themselves.

RESEARCH IMPLICATIONS AND CONCLUSIONS

Available statistics demonstrate that in most countries, tourism industry is dominated by small and medium enterprises. Although their advantages are multiple, so are their weaknesses. Cooperation is a potential strategy for small hotels (and small tourism firms in general) which can help them enhance their competitive position. Namely, working together creates virtual size, strengthens their market and negotiating position and produces synergy effects while preserving the necessary autonomy and flexibility in their individual business. As such, it is especially convenient for overcoming difficulties resulting from firm size and attempt of small firms to compete with the large ones in the area of resources and market access.

International practice has proven that tourism networks can substantially improve small business performance. The empirical results in this paper have shown that it is a rather undeveloped concept in Croatia and that only a small proportion of small hotels are at the time involved in collaborative arrangements. Still, more than a half of them are open to the idea of cooperation. That calls for an investigation into the barriers that hinder this kind of behaviour and measures to eliminate them. Exchange of experiences and best practice from abroad would be a good step forward. Also, continuous education of owners/managers of small hotels on benefits of networking is needed. If these activities would be accompanied by advisory, organisational, promotional and/or financial incentives and support to networking from state and/or regional level, it is believed that the number of "cooperation" sceptics would decrease substantially.

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