2002

The Development of tourism in republic of Croatia by using best management practices

Ivo Arkulin

Follow this and additional works at: http://scholarworks.rit.edu/theses

Recommended Citation

This Thesis is brought to you for free and open access by the Thesis/Dissertation Collections at RIT Scholar Works. It has been accepted for inclusion in Theses by an authorized administrator of RIT Scholar Works. For more information, please contact ritscholarworks@rit.edu.
THE DEVELOPMENT OF TOURISM IN REPUBLIC OF CROATIA
BY USING BEST MANAGEMENT PRACTICES

By

Ivo Arkulin

Major Advisor:
James W. Jacobs, Jr., PhD

A THESIS

Submitted to
Rochester Institute of Technology
In partial fulfillment of the requirements
For the degree of

HOSPITALITY – TOURISM
MASTER OF SCIENCE

Department of Graduate Studies in the
School of Food, Hotel and Travel Management

2002
Name: Ivo Arkulin Date: 03-11-02 SS#

Title of Research: THE DEVELOPMENT OF TOURISM IN REPUBLIC OF CROATIA BY USING BEST MANAGEMENT PRACTICES

Specific Recommendations: (use other side if necessary)

Thesis Committee: (1) Dr. James Jacobs, Jr. (Chairperson)

(2) ____________________________

OR (3) ____________________________

Faculty Advisor: ____________________________

Number of Credits Approved: 4

7/25/2002 Date Committee Chairperson’s Signature

Date Committee Signature

Note: This form will not be signed by the Department Chairperson until all corrections, as suggested in the specific recommendations (above) are completed.

cc. Department Student Record File – Original Student
M.S. Hospitality-Tourism Management
Statement Granting or Denying Permission to Reproduce Thesis/Graduate Project

The Author of a thesis or project should complete one of the following statements and include this statement as the page following the title page.

Title of Thesis/project: Tourism Development in Croatia by Using Best Management Practices

I, Ivo Arkulin, hereby grant permission to the Wallace Memorial Library of R.I.T., to reproduce the document titled above in whole or part. Any reproduction will not be for commercial use or profit.

OR

I, __________________, prefer to be contacted each time a request for reproduction is made. I can be reached at the following address:

______________________________

______________________________

______________________________

05/31/02  Signature

Date
ABSTRACT

This study has been created to analyze current stage of tourism development in Republic of Croatia, as well as to show prospective ways for improved tourism and economic development in the future. The focus is on both macroeconomic and microeconomic aspects. The study shows how to use some of the best management practices – system dynamics, systems thinking, breakthrough thinking, benchmarking and delivering profitable value – in scenario planning for Croatian tourism and economic development.

The transition process brings about numerous challenges to every aspect of life, but especially in economics. Government administrators, economists, tourism planners, corporate managers and university professors can find the best way to deal with these challenges in such increasingly complex environment. Traditional styles and practices in both knowledge delivery and implementation of actions are often limited when the focus is on ambiguous and interrelated problems within complex systems. A new systematic and organized approach should be established for fostering the problem solving, critical thinking and scenario planning skills. The idea is to familiarize those in charge of tourism and economy development in Croatia with a new approach, derived from best management practices. Breakthrough thinking shows that the same or very similar practices can be used in management of an enterprise, a city, region or a whole country. Hands-on experience through implementation of the best practices should eventually result in increased creativity and implementation of the new ideas. It will also help to
environment. The final result would be a transformation of the Croatian economy to a value delivery system and establishing “Croatian best practices”, i.e. feasible model for successful tourism and economic development that can be used not only in Croatia but, with modifications, in other countries with a similar background.
ACKNOWLEDGEMENTS

I would like to extend my sincere thank to everyone who have supported me in any respect for accomplishing this goal.

I would like to thank my family for all their love, faith and unreserved support in everything I did, I do or I will do.

Special thanks to Dr. Jacobs for everything he did for me. I found not only intellectual model, but a real friend in Jake.

It is impossible to forget Loak-an-ta, my fantastic team. I was really both flattered and fortunate to meet all of them. Thanks for being part of my life, and I am looking forward to keeping and strengthening our friendship through all the coming years.

I would also like to extend acknowledgement to Dr. Domoy and Dr. Myers, from Rochester Institute of Technology, as well as to my dear friends Nina and Don from American College of Management and Technology in Dubrovnik, Croatia, for all their help and support. Without them, I would probably miss the privilege to join this wonderful school. Thanks to all professors and lecturers at R.I.T. that have been part of the Graduate program.

And the last, but definitely not the least, warmest thanks to my wife Stanka for all her love, support and shared dreams.
TABLE OF CONTENTS

Abstract ................................................................. ii
Acknowledgements ....................................................... iv
Table of Contents ........................................................ v
List of Charts ............................................................. viii
List of Tables ............................................................. ix
List of Figures ............................................................. x
CHAPTER I – Introduction ............................................... 1
    Tourism in Croatia ................................................... 1
    Background ........................................................... 5
    Problem ............................................................... 6
    Purpose ............................................................... 6
    Methodology ........................................................ 7
    Significance ........................................................ 8
    Further Development .............................................. 9
    Limitations ........................................................ 10
CHAPTER II – Problem Development .................................. 11
    Economic and Political Overview ............................... 11
    • Croatia – a country with attractive economic potential ... 12
    • Political reforms in 2000 ....................................... 13
    • Relations with the International community ............... 13
    • Convergence with European Union ........................... 14
Key Factors for Croatian Tourism Development –

Microeconomic Approach ................................................................. 62
  • Population .................................................................................. 65
  • Capital Allocation ......................................................................... 66
  • Industry ....................................................................................... 73

Further Development ........................................................................ 76

CHAPTER IV – Conclusions, Recommendations and Continuation of the Study ......................................................... 77

Conclusions ...................................................................................... 77

Recommendations ............................................................................ 80

Continuation of the Study ................................................................. 81

References ........................................................................................ 84

Appendix I – Republic of Croatia –

General Information ........................................................................ 86

Appendix II – Republic of Croatia –

Key Economic Indicators ................................................................. 88
LIST OF CHARTS

CHART 1.1 – Republic of Croatia – Geographic overview ................................ 4
LIST OF TABLES

TABLE 1.1 – Environment for developing Croatian tourism ......................... 7

TABLE 2.1 – Foreign direct investment by country of origin
and the sum invested ................................................................................. 27

TABLE 2.2 – Structure of Foreign direct investment ................................. 28

TABLE 3.1 – System matrix for Croatian tourism development .................. 59

TABLE 3.2 – System matrix for Croatian tourism development – Microeconomic approach ........................................ 63
LIST OF FIGURES

FIGURE 2.1 – Croatian GDP by sector .................................................. 16
FIGURE 2.2 – The structure of Croatian exports and imports ................... 17
FIGURE 2.3 – Average growth in Transition countries 1994-1999 ............... 18
FIGURE 2.4 – Average annual inflation in emerging Europe ...................... 19
FIGURE 2.5 – Croatian trade balance 1995-2000 ..................................... 21
FIGURE 2.6 – Gross external debt as % of GDP in European Transition countries ................................................................. 22
FIGURE 2.7 – Number of banks in Croatia ............................................. 23
FIGURE 2.8 – Share of assets in total bank assets .................................... 24
FIGURE 2.9 – Croatia’s equity market 1997-2001 ................................... 26
FIGURE 2.10 – The Systems Matrix ..................................................... 35
FIGURE 3.0 – The Macroeconomic Model for Croatian Tourism Development ................................................................. 39
FIGURE 3.1 – Futures scenario at local level ......................................... 42
FIGURE 3.2 – Futures scenario at regional level ..................................... 45
FIGURE 3.3 – Futures scenario at global level ....................................... 49
FIGURE 3.4 – Futures scenario ........................................................... 50
FIGURE 3.5 – Interventions to lack of commitment to purpose ................... 53
FIGURE 3.6 – Interventions to lack of motivation .................................. 55
FIGURE 3.7 – Interventions to lack of knowledge .................................. 56
FIGURE 3.8 – The Macroeconomic Model for Croatian Tourism Development
Tourism Development (Duplicate) ........................................ 57

FIGURE 3.9 – Population – tourism development mutual causal diagram .......... 66
FIGURE 3.10 – Capital allocation – tourism development diagram ............... 68
FIGURE 3.11 – Tourism development – industry mutual causal diagram .......... 75
CHAPTER I
INTRODUCTION

Tourism in Croatia

The tourism industry of the Republic of Croatia is more than 150 years old, located on the Adriatic Sea, one of the most beautiful coasts along Mediterranean Sea. In the middle of 19th century, at that time part of Austro-Hungarian Empire, the Croatian coastal city of Opatija became a famous winter resort and spa for noble families from the Empire, thanks to the marvelous Mediterranean climate. This period marks the birth of Croatian tourism, and shortly after, the development of the costal cities Opatija, Dubrovnik and Split as tourism resorts.

Rich in natural beauties and cultural heritage, Croatia offers a unique blend of historical influences, serving as a strategic nexus connecting East with West and northern Mediterranean with southern Mediterranean. This is reflected in Croatia’s glorious display of ancient cultural monuments, impeccably preserved for all to enjoy today. With cities of Dubrovnik, Split and Trogir, as well as Plitvice lakes National park listed in the United Nations Educational, Scientific and Cultural Organization’s (UNESCO) list of World Cultural Heritage, Croatia promises to be a must-see European stop for every tourist traveler.

The Croatian coast was very important for the economies of the countries that were developing tourism during the First Yugoslavia (1918-1941) and the Second Yugoslavia, after the World War II. As a federal republic of Second Yugoslavia, Croatia
was under the communist government for 45 years, until democratic changes in 1990. Although Croatia declared its independence from Yugoslavia in 1991, it took four years of bitter fighting for liberation of occupied Croatian territories – one third of the country was captured by the so-called “Yugoslav Army” and paramilitary Serbs and Montenegrins. Under United Nations supervision the last Serb-held enclave in eastern Slavonia was returned to Croatia as recently as 1998. With the war actions over, the government has applied all efforts to rebuilding Croatian infrastructure. Before the dissolution of Yugoslavia, Croatia was one of the most prosperous and industrialized areas with per capita output one-third above Yugoslav average.

Today's Croatia faces considerable economic problems stemming from; the legacy of longtime communist mismanagement of the economy, damage during the internecine fighting to bridges, factories, power lines and buildings, and the infrastructure important for tourism (airports, harbors, roads, hotels as well as cultural monuments). Many of these were almost completely destroyed in occupied areas, and a large refugee population disrupted economic ties.

Croatia has another problem; the huge migration of people through the centuries. Croatian descendants are living now in the US, Canada, South Africa, Australia, New Zealand, Chile and Argentina, along with some European countries, such as Italy, Austria, Germany, UK and Scandinavia. Many people left their homes, villages, towns and cities with hope to return, but most of them stayed in their new homelands forever. It is estimated that in addition to 4.5 million Croatians in Croatia, there are more than 5 million emigrants and their descendants all over the world. Migration is always caused by either economic or political upheaval. The most recent migration occurred in last 10 years
(during the war and post-war time) and continues today. Many young, highly educated Croats leave the country, creating the so-called "brains flow" problem.

As mentioned, Croatia possesses wonderful resources and can again be one of the most attractive destinations both on the Mediterranean and in Europe. Croatia should look at tourism as a first activity to start overall redevelopment and future development of the country. Economic expansion should also stop migration, and bring Croats back from abroad (as well as other prospective investors).

The government understands that the tourism industry is vital to creating jobs and attracting foreign investment, combining a critical element in the road to building the economy and rebuilding infrastructure, through enhancing the Croatian tourism product. For these reasons, in the last five years Croatia has been investing heavily in tourism. Since 1997, over US$ 500 million have been invested in the industry. Tourism promotion, subsidies of transportation within Croatia, improvement in financial state of hotel enterprises, preparation of the tourist seasons, incentives to small business, development of rural tourism and guarantees for loans approved by Croatian Bank for Reconstruction and Development (HBOR), are just a few of these investments.

It can be seen, therefore, that the government’s strategy of economic development places a heavy emphasis on tourism and hospitality. Croatia still faces numerous difficulties to that end.

Chart 1.1 demonstrates Croatia’s very attractive location in the middle of Europe. It can be seen that Croatia is both Central European (northern parts) and Mediterranean (southern parts) country, bordering Slovenia and Hungary on the north and sharing the
Chart 1.1 – Republic of Croatia - Geographic overview


Adapted by Arkulin, 2001.
sea border with Italy on the south. Its eastern neighbors are Balkan countries Bosnia and Herzegovina, Serbia and Montenegro. Lower part of the chart represents zoomed map of Croatia with its main urban regions. There are also population data for the biggest cities. Zagreb is the capital with about one-half of total Croatian population in its greater area on the north of country. Osijek is the second largest continental city and the main urban center of the eastern Croatia. Rijeka is Croatia’s biggest sea port and the main urban center on the west of country. City of Split is Croatian biggest coastal city and second largest seaport. The Chart 1.1 also shows important coastal cities Zadar and Dubrovnik.

Background

Croatia’s unique location and attractive resources are competitive advantages in undertaking tourism development actions. Combined with rich hospitality tradition those characteristics should be key components in re-establishing Croatia to one of the most attractive destinations both on Mediterranean and in Europe. However, today’s Croatia faces considerable economic problems stemming from war heritage, migration, and transitional process. The government’s strategy of economic development places a heavy emphasis on tourism and hospitality, combined with other measures for political and economic structural reform.

This study is created to analyze current stage of tourism development in Croatia, as well as to show prospective ways for tourism and economic development change in the future. The focus will be on both macroeconomic and microeconomic aspects for designing possible answers for the futures of Croatian tourism and key factors for tourism
development. The study will research some of the best management practices and relate them to scenario planning for Croatian tourism and economic development.

New ideas, derived from best management practices will be used in conclusions making process. The outcome will be recommendations for further development and continuation of the study.

The Problem

Croatia has accomplished some important tasks in its economic development over last couple of years. It is expected that this positive trend will continue, eventually bringing Croatia all privileges of an economically developed country. Croatian tourism, as one of the major economic activities will be an important factor in accomplishing that task.

Conditions described in both the Introduction and Background were used as a foundation for better understanding of the focus of this study: the place and significance of tourism in the emerging new Croatian economy.

The Purpose

The purpose of this study is to design a theoretical model that can be applied as a “starting point” in creating real-time action plans for further tourism and economic development in Republic of Croatia. In order to accomplish that, the study will also have to analyze following elements from current Croatian environment:
• Management theory
• Management practices
• Developmental practices
• Leadership

Findings will be used to make recommendations for further Croatian economic and tourism development.

Methodology

This study will use western best practices to analyze current stages of economic and tourism development in Croatia. It will also try to show possible ways for tourism development to occur in the future. The study will put focus on tourism development in Croatia across several levels – local, national, sub-regional, regional and global. These levels are shown in Table 1.1.

Table 1.1 – Environment for developing Croatian Tourism

<table>
<thead>
<tr>
<th>Local</th>
<th>Croatian Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>Republic of Croatia</td>
</tr>
<tr>
<td>Sub-regional</td>
<td>South-Eastern Europe and Balkans Region</td>
</tr>
<tr>
<td>Regional</td>
<td>Europe</td>
</tr>
<tr>
<td>Global</td>
<td>World</td>
</tr>
</tbody>
</table>

Source: Arkulin, 2001
Two main approaches will be used in accomplishing those objectives:

- Macroeconomic approach
- Microeconomic approach

Neither macroeconomic nor microeconomic approach will be full and complex analysis of Croatian economy. They will rather represent macroeconomic and microeconomic environment for Croatian tourism development. The emphasis of this study still remains on tourism development in Croatia. Hence, macroeconomic approach will be kept in mind for designing systems model as scenario for Croatian tourism development. Macroeconomic approach to a story about Croatian tourism development will be also shown through the systems matrix that will follow systems model. Microeconomic approach will put its focus on Croatian regional development.

Significance of the Study

The model can help Government administrators, economists, tourism planners, corporate managers and university professors with tourism development projects.

The intention is to show different perspectives about the problem and to familiarize those in charge of tourism development with new ideas considering best management practices. That will, eventually, result in:

- Increased implementation of the new ideas
- Increased creativity
- Creation of the new “business code” or regulative environment in the business
• Lead to the establishment of “Croatian best practices”, i.e. feasible model for successful tourism and economic development that can be used in countries with a similar background.

Further development

The development of this study uses a four-step process.

*Step One* develops the problem. Introduction and Background was used as a foundation for better understanding the focus of this study. Step one also includes purpose, methodology, significance and limitations of the study.

*Step Two* will use Economic and political overview as a tool for better understanding of current Croatian environment for tourism development. Literature overview familiarizes the reader with key management practices that will be used in this study. The concepts described in literature overview will help further development of steps two, three and four.

*Step Three* will use both macroeconomic and microeconomic approach for defining futures and key factors of Croatian tourism and economic development. Systems model will be developed to show possible futures of Croatian tourism. Microeconomic approach will put focus on three inter-sector dependencies in Croatian tourism development – population, capital allocation and industry. Best management practices will be used to show mutual causal relations between tourism and those three sectors.

*Step Four* will summarize study findings and provide conclusions. It will also include recommendations for further development and continuation of the study.
Study Limitations

The scope of this study is Republic of Croatia. A study related to such a complex system is always associated with certain limitations. These limitations are primarily related to the data selection and the use of information. Since there is a whole variety of information available from different sources, the study will be limited by actual data reviewed.

Another limitation will be associated with models, diagrams and system matrix. Those models will be simplified pictures of reality from the author’s perspective. That doesn’t mean they will be an actual 100% realistic reproduction of real world systems. The intention is to introduce them as possible tools in scenario planning and decision making process.

Further limitations can be found in Croatian culture. Croatian society has been influenced for decades by socialist paradigm and communist mismanagement of the economy. Most of people in today’s Croatia feel strong resistance to the former system. The business environment is not an exemption, as many managers, often unconscientiously, still kept the old mental models. This especially relates to older generations of senior management. The challenge will be in addressing such an audience. The younger generation, although not involved with practicing business in the socialist economy environment, have been raised on traditional economic and management theory, taught at Croatian universities. That can be a possible limit in coping with contemporary western business practices that are coming with increased Foreign Direct Investment (FDI) to Croatia in privatization and globalization processes.
Economic and Political Overview

Tourism is, without doubt a very important element in the strategic development of Croatian economy. However, tourism is just a component of a larger system. An economic and political overview serves as a helpful tool in understanding the environment for tourism development. This overview will put focus on following elements:

- Economic potential of Croatia
- Political efforts in development of a full parliamentary democracy
- Relations with the International Community and convergence with European Union
- Economic program for supporting stability and growth
- Gross domestic product
- Export base
- Growth path
- Inflation rate
- Current account deficit
- Trade balance
- Foreign exchange reserves
- Gross external debt
- Banking sector
- Privatization of public enterprises
- Croatia's equity market
- Foreign direct investment portfolio
- Legal issues in economical development

Croatia – A Country with Attractive Economic Potential

The Croatian GDP in 1999 was US$20 billion. This is fair accomplishment for the country with the population of 4.5 million and turbulent heritage from communist mismanagement and war for independence. Per Capita GDP was US$4,489 in 1999 compared to US$4,028 in 1991 (Fižulić, Kardun, Šeperić (2001). These figures show a positive trend and good direction for further economic development. An existing well-diversified economic base with well-educated and skilled workforce should be good base for achieving future goals.

Croatia is one of emerging European economies. Successful stabilization in the post-war and transition processes resulted in one of the most stable currencies and lowest inflation rates in Emerging Europe, averaging 4.2% over the past 5 years (Fižulić, Kardun, Šeperić (2001).

Over 50% of total Croatian exports are destined for European Union (EU) markets (Fižulić, Kardun, Šeperić (2001). This demonstrates a commitment to strong market orientation and close ties with Europe. Croatia also recorded increased growth in exports of high value added goods to Europe recently.
Political Reforms in 2000

Constitutional reforms passed by parliament in November 2000, brought strengthened democracy in Croatia. The country has moved from a semi-presidential form of government to a full parliamentary democracy. The president is no longer a member of any political party, and the government is solely accountable to the parliament, thus improving political stability. There is also increased autonomy of regional governments. All of these factors have resulted in a better environment for new investments and further economic development. In 2001 Croatia initiated media reforms as well as reforms within State administration. All indicators point to a strong political environment and improved relations with the international community.

Relations with the International Community

On the international level, Croatia has established good relationships with some key organizations. In November of 2000, it accepted membership into World Trade Organization (WTO). During 2000, Croatia also had extensive co-operation with Stability Pact for South Eastern Europe, formed by European Union (EU) to foster peace, democracy, respect for human rights and economic prosperity so as to achieve stability in the whole region.

One of the key strategic security partnerships is with the North Atlantic Treaty Organization (NATO). Croatia has been accepted to the “Partnership for the Peace” Membership in a May 2000 agreement between NATO and new democracies in the Eastern and South Eastern European countries. Croatia aims to become an equal NATO member by 2005. Partnership between Croatia and the EU is another important strategic interest, due to country’s geographical location and cultural heritage. In January 2001, the
Croatian government began its talks in the EU Stabilization and Association Agreement. The agreement was ratified in October of 2001 in Strasbourg, France.

Convergence with European Union

The ultimate goal of the Croatian government is to join the European Union by 2006 and European Monetary Union (EMU), thereafter. Toward this end, an intensive convergence programs are being undertaken to provide:

- Macroeconomic stability
- Further improvements to Croatia’s functioning market economy
- The capacity to withstand competitive pressure and market forces within the European Union
- Inflation and interest rate convergence as Croatia adjusts its rates down to the low level standards prevailing in Western Europe

Croatia has already made significant strides to fulfill the above objectives and may already be considered a medium-term convergence story. The country’s interest is to achieve convergence as soon as possible. Full membership in the EU will open free access to a market with a population of 220 million. That will also open Croatian borders to more intensive Foreign Direct Investment (FDI), which will eventually lead to increased employment and export. Convergence story will also bring variety of benefits to Croatian tourism. Larger market and increased economic activity will cause intensive traveling and achieve more tourism revenues. Membership in the EMU will assure more convenience in financial transactions at all levels.

Economic Program to Promote Stability and Growth

Croatia has created and undertaken new Economic program in order to:
- Reduce the budget deficit through spending cuts and revenue enhancements
- Reduce the size of the public sector
- Implement pension and health care reform
- Reduce overall tax burden & unemployment
- Accelerate the rate of privatization and restructuring
- Promote free trade and competitiveness
- Stimulate Foreign Direct Investment (FDI) and enhance co-operation with international financial institutions

The economic program has been designed to promote stability and growth, and eventually fulfill objectives for convergence with the EU. However, designing and implementing a new legislative, as well as redesigning the existing one, is rather a process than a single action. Such an ambitious economic program will need some time to show its results.

Croatian tourism is also affected by those changes. The most important objectives from the economic program for tourism are privatization, restructuring, free trade and increase in FDI.

**GDP Reflects a Service-based Economy**

The Croatian move away from dependence on agriculture and manufacturing is a sign of maturity not yet achieved by most neighboring economies. Almost 70% of the GDP comes from the service sector (Fižulić, Kardun, Šeperić (2001). That is still far from the US, where about 87% of the GDP comes from the service (Domoy, 2001), but still very good result for the country with fore-mentioned background.
Figure 2.1 – Croatian GDP by Sector

GDP by Sector

- Agriculture: 10.3%
- Manufacturing: 20.1%
- Services: 69.6%

Presentation in USA/Canada by the Ministry of Economy of the Republic of Croatia.

The structure in Figure 2.1 represents fertile ground for further development of service industry. Croatia expects to increase the share of services in its total GDP over next couple of years. Implementation of best management practices will be one of key factors in that process. Tourism, as a part of service industry, will definitely benefit from developed service infrastructure.

Western-Oriented High Value Added Export Base

Over 52% of Croatian exports go to the EU and the Organization for Economic Co-operation and Development (OECD) countries. Exports are dominated by high value added goods. This shows Croatian ability to withstand competitive pressure and market forces within the EU. The Structure of Croatian Exports and Imports can be seen in Figure 2.2.
Figure 2.2 – The structure of Croatian Exports and Imports

Structure of Exports


Figure 2.2 shows Croatian foreign-trade surplus in capital and consumer goods, and reflects a service-based economy. Foreign-trade deficit exists in intermediate goods and energy. The situation in energy will be improved with further privatizations in electricity, oil and gas conglomerates.
Croatian Growth Path in 2000

As can be seen in Figure 2.3, in the period 1994-1999 Croatia had one of the best growth rates in European Transition countries. Only Poland and Slovakia had better rates, while Slovenia, Hungary and Czech Republic had lower growth rates. Croatian

Figure 2.3 – Average Growth in Transition countries (%) 1994-1999


growth rate of almost 5 % is also better than the EU average. Good growth rate indicates stability and justifies undertaken economic measures for reducing the budget deficit, reducing the size of the public sector, implementing pension and health care reform, stimulating Foreign Direct Investment (FDI), privatization and free trade.
Inflation Rate

Croatia has one of the lowest inflation rates in emerging Europe, with an average of 5% from 1994 to 1999 (Fižulić, Kardun, Šeperić (2001). According to Figure 2.4 data, only the EU had better results in the same period. Relatively low inflation rate, close to Western Europe standards helps Croatia in its intentions to achieve convergence with the EU. Maintaining the low inflation rate will also help tourism and foreign trade. Currency

Figure 2.4 – Average Annual Inflation in Emerging Europe

exchange rate will remain on constant levels. That will help foreign nationals, whether they are investors to Croatia, businessmen or just travelers, to have clear understanding of purchasing power of their domicile currency in Croatia. Low inflation rate also gives positive picture about country’s economy.

Declining Current Account Deficit

Major policy steps have been taken to tighten the deficit after a substantial increase in the current account deficit in 1997. Deficit was set to decrease further on the back of higher exports to the EU, current transfers and privatization-linked FDI. The sources of current account deficit financing are moving away from debt financing to Foreign Direct Investment. Increased overall privatization and more aggressive FDI positively affect tourism by providing environment for quality privatization in that sector. On the other hand, increased revenues in tourism will help declining account deficit because tourism should be treated as an export branch of economy due to generating foreign currency revenue. That goes back to increased exports to the EU and other international destinations.

Trade Balance

Trade balance reflects a service oriented economy - further privatization and tariff removals by WTO and EU should lead to a declining deficit. Positive movement can be seen from 1997 (Figure 2.5), which was the worst year in five-year period, with about US$ 5,000 mil in deficit, to about deficit of US$ 2,500 mil in 2000 (Fižulić, Kardun, Šeperić (2001). Developed tourism can definitely help in achieving declining deficit.
Increased tourist traffic will mean more foreign currency revenues that should be considered as international trade and included in trade balance.

**Increasing Foreign Exchange Reserves**

Croatian Foreign Exchange Reserves reached US$ 3.1 billion in November 2000, representing 4 months of imports and easily covering 2001 external financing requirements of US$ 2.4 billion (Fižulić, Kardun, Šeperić (2001). Developed tourism and increased tourist traffic in the future will increase those reserves even more.

**Gross External Debt**

The country’s overall external position remains strong, with comparatively low external debt and debt service burdens, low short-term debt, and healthy reserve levels. Comparing with its peers, Croatia remains a moderately indebted country, as shown in the Figure 2.6. However, gross external debt with around 45% of GDP still represents

---

*Figure 2.5 – Croatian Trade Balance 1995-2000*

![Trade Balance Chart](chart.png)

fairly high result comparing to developed countries. The new economic program should help in lowering external debt by reducing the budget deficit and the size of the public sector as well as accelerating the rate of privatization, restructuring and FDI. Developed tourism with its generated revenues will help increase of GDP. There were also several interesting examples of privatization in some tourism companies in Croatia. Over-debted companies were sold to foreign investors for a nominal value of 1 HRK (Croatian Kuna). The investors got the properties, but they have also taken over obligations toward creditors. Although not a breakthrough idea, that might be a model for other state-owned companies in different sectors. Such practice could significantly help in lowering Gross External Debt.
Banking Sector

Croatia has continuously made efforts to strengthen its banking system, through recapitalization, rationalization and openness to foreign investors. In 1996, four large banks were rehabilitated. Their balance sheets were cleaned and recapitalized. One of them was bought by the EBRD (European Bank for Research and Development) and Hypo bank (Germany). The remaining three banks reported profits in 1998 and were privatized by sale to foreign investors in 1999 and 2000. The number of banks in Croatia is shown in Figure 2.7. In 1993 Croatia had 18 banks, all domestic. The first foreign bank has been opened in 1994. In 1997 Croatia had the most banks in this period (55), with 48 domestic and 7 foreign. Total number of banks dropped in 2000 to 36, but structure has been changed. The share was 27 domestic vs. 19 foreign banks (National

Figure 2.7 – Number of Banks in Croatia

Bank of Croatia, June 2000). This shows more aggressive entering of foreign capital to Croatia.

Figure 2.8 represents share of assets in total bank assets. In 1997 the share of foreign assets in total bank assets was as low as 4%. Over 1999 and 2000 that share increased to 76.1% and it is likely to grow further (Fižulić, Kardun, Šeperić (2001). These data show increase in foreign capital to Croatia, as well as positive trend in further FDI.

Developed tourism will increase foreign capital to Croatia even more, whether through FDI in tourism sector, or generating revenues from providing services. Foreign presence in Croatian monetary system grants its stability. Banks with well-established

international credibility certainly help good image and provide prospective investors with increased feeling of security for their capital invested.

Privatization

The process of privatization is a phenomenon that takes place in all transition countries. This process represents moving from state-owned and operated to private-owned and operated enterprises, and eventually, full transition towards market economy. In 1999 Croatia records a number of successful privatizations:

- Hrvatski Telekom (HT) – Croatian telecommunication provider. In October 1999 the Croatian government accepted Deutsche Telekom’s (Germany) offer to acquire a 35% stake of HT for US$850 million.

- Privredna Banka Zagreb (PBZ) – one of leading Croatian banks. In December 1999 the Croatian government signed an agreement to sell 66.3% of PBZ for Euro 300 million to Banca Commerciale Italiana SpA (Italy)

The privatization of banking sector trend continued through 2000:

- Riječka Banka - strategic sale of a 60% stake to Bayerische Landesbank (Germany) for US$ 76 million

- Splitska Banka - strategic sale of a 63% stake to Unicredito (Italy) for Euro 48 million

In 2001, strategic privatization moved from banking sector to infrastructure. By the end of year, there were further privatizations in electricity, oil and gas conglomerates expected.

Strengthened monetary system and restructured infrastructure represent good foundation for increased FDI in tourism sector. End of 2001 and beginning of 2002 mark
more privatizations in Croatian tourism. Successful presence of well-known brand names like Sheraton, Intercontinental or Sol Melia (leader of the Spanish tourism market, second in Europe and ninth in the world) indicates that investment in Croatian tourism is not a venture. The latest successful privatization in tourism sector can be found in Croatian coastal city of Dubrovnik, where Hilton Hotels took over one of the local properties, indicating establishment of Hilton Corporation in Croatia. The hotel is under reconstruction and modernization and it is planned to be open in the beginning of 2004.

**Croatia’s Equity Market**

Privatization of Hrvatski Telekom shows a commitment to build a strong stock

**Figure 2.9 - Croatia’s Equity Market 1997 – 2001**

market in Croatia following successes of Pliva, the largest pharmaceutical company, and Zagrebačka Banka. CROBEX, the official Zagreb Stock Exchange share index, has recovered after Russian crisis and political uncertainty. The data in Figure 2.9 show continuous development of Croatia’s Equity market. More privatizations in all sectors, including tourism, will help further development of Croatia’s Equity market and transition to a market economy.

**Foreign Direct Investment (FDI)**

FDI has increased on the back of key privatizations. According to National Bank of Croatia, US$ 1,408 mil has been invested in 1999 (Fižulić, Kardun, Šeperić (2001). Table 2.1 shows FDI breakdown by country of origin and the sum invested at the end of the first half of 2000. The breakdown can also indicate possible new management

<table>
<thead>
<tr>
<th>Country of Origin</th>
<th>Sum invested (US$ mill)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed European Countries</td>
<td>US$2,968</td>
</tr>
<tr>
<td>USA</td>
<td>US$1,102</td>
</tr>
<tr>
<td>Transition Countries</td>
<td>US$109</td>
</tr>
<tr>
<td>EBRD</td>
<td>US$99</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>US$4,278</strong></td>
</tr>
</tbody>
</table>

approaches associated with new companies. In other words, is to expect that western corporations will bring their best practices to Croatian business environment. That would help transition of current Croatian management practices to newer, market-oriented philosophies.

Table 2.2 – Structure of FDI

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications</td>
<td>26</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>21</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>20</td>
</tr>
<tr>
<td>Cement industry</td>
<td>3</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>3</td>
</tr>
<tr>
<td>Brewing industry</td>
<td>1</td>
</tr>
<tr>
<td>Others</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


As shown in table 2.2, European and the US investors have focused on key sectors. According to National Bank of Croatia, dating at the end of the first half of 2000, most of the FDI is going to telecommunications (26%), followed by pharmaceuticals (21%) and financial institutions (20%). Cement production and oil and gas share 3% in total FDI. Brewing has grown 1%, and the remaining 26%, including tourism, goes to all other
branches. This structure indicates different stages in privatization. It can be seen that the first stage is over – privatization of the infrastructure - and the focus is moved toward other branches, amongst them tourism. That should be an opportunity for Croatian tourism development through more intense FDI.

Legal Issues in Economical Development

A new Law provides strong incentives for investment. The Law stimulates Domestic Direct Investment (DDI), as well as FDI. Minimum investment for foreign and domestic legal and physical entities is 4 million HRK (Republic of Croatia, Ministry of Economy). Beneficiaries of incentive measures and tax concessions are enterprises registered as Croatian companies. The Law foresees three incentive measures:

- Initial capital
- Real estate usage
- Assistance in re-training and creating new job opportunities

Tax rate cuts will help Croatia to compete regionally. An additional stimulant is the Law of Free Zones, June 1996, that regulates the establishment of free zones in Croatia. Until 2000, the country has 12 Free zones, with total investment of US$22.9 million. Six new Free zones were opened in 2001. According to the Law, a company in a free zone may engage in manufacturing, wholesale, foreign trade and commission of financial services for the free zones. There is no need to register as a Croatian company when operating within the free zone and all customs clearance is done within the free zone.

The next step could be expanding the Law of Free Zones to tourism development areas. Treating tourist resorts as free zones could tremendously help re-development and further development of Croatian tourism.
Overview Summary

This economic and political overview is used as a tool for better understanding of current Croatian environment for tourism development. The intention was to show efforts in development of a full parliamentary democracy and increased integration into the International Community. Improved macroeconomic environment and continued structural reform over last couple of years will eventually result in accelerated privatization of public enterprises and aggressive increase in FDI portfolio. All mentioned should lead to achievement of Croatia's ultimate goal - convergence with the EU and integration into global processes.

Best management practices will be imperative in that process. Development of the best management practices is multidisciplinary and hands-on oriented. Multidisciplinary approach includes economy, political science, sociology, psychology and communication. Croatia will need both best western management practices, as well as its own management model.

Literature Overview

Following literature overview will familiarize the reader with key practices used in this study. The focus will be on the following concepts:

- System Dynamics
- Systems Thinking
- Breakthrough Thinking
- Benchmarking
Value Propositions and Delivering Profitable Value

**Systems Dynamics**

System Dynamics theory has its roots in the Sloan School of Management at Massachusetts Institute of Technology (MIT), established by Jay W. Forrester in 1956. System Dynamics is a concept for analyzing complexity within different systems to show how systems are structured and how policies used in decision making affect the behavior of the system. System Dynamics theory tries to show systems in the form of causal feedback loops, mathematical equations, and simulations.

This theory is widely applicable and provides holistic approach to real-time problems. The five essential characteristic of the Systems Dynamics are (Chen 1995):

1. **Systems Thinking.** This approach is based on a philosophy that views a problem from the broadest possible perspective.
2. **Information Feedback Control Theory.** Real world systems, because of their cyclic nature are usually shown as feedback loops or mutual causal diagrams. These loops represent the dynamic behavior of different system elements. The idea behind it is in Physics “action-reaction” theory, i.e. any action will cause a reaction, whether “good” or “bad”. These links or reactions are commonly marked with signs “+” or “S” (same) for the positive influences, and “-“ or “O” (opposite) for the negative influences. That means the loops have a tendency to either stabilize or destabilize a system. System planners’ actions in managing a feedback system are usually characterized as “interventions”.
3. **Delay Concepts.** Understanding gaps and delays in a system is very important element of System Dynamics. According to Levine & Fitzgerald (1992), the
length of time for something to occur can fundamentally affect the overall behavior of a system. Time frame is essential in creating interventions.

4. **Simulation and Gaming.** Although a part of the System Dynamics teaching since the beginning (Meadows, 1989), simulation is still very important technique in problem solving. It is associated with Scenario planning, i.e. construction of the model based on real-time problem in which researchers can experiment and test causes and effects of different interventions.

5. **Computer Technology.** Information technology is a powerful tool for building System Dynamics simulation models. Contemporary user-friendly technology and better graphical interface are helpful and time-saving element in research process (Chen, 1995).

**Systems Thinking**

Systems Thinking has its origins in work of Forrester's successor, director of Center for Organizational Learning at MIT's Sloan School of Management, Peter M. Senge. Senge (1994) classifies Systems Thinking as “A large and fairly amorphous body of methods, tools and principles, all oriented to looking at the interrelatedness of forces and seeing them as part of a common process.” The main purpose of Systems Thinking is discovering and articulating the nature of certain common principles that affect behavior of any system. Once discovered, these principles can be used for manipulating the system and achieving desired change within organization.


Both systems dynamics and systems thinking will be used in this study in creating system models for Croatian tourism development. The study will concentrate on both macroeconomic (larger picture) and microeconomic (internal) fields.

**Breakthrough Thinking**

Nadler, Gerald & Hibino, Shozo (1994, 1998). *Breakthrough Thinking: The Seven Principles of Creative Problem Solving*, Prima Publishing, Roseville, CA, present analytical approach for solving problems in creative and efficient manner. These seven principles are:

1. **The Uniqueness Principle.** The main idea behind this principle is that *each problem is unique* (Nadler & Hibino 1994, 1998). Each problem should be treated as unique to find effective solution. According to authors, there are no two similar situations and each problem is located in unique environment of related problems.

2. **The Purpose Principle.** This principle “states that the exploration and expansion of purposes provide the opportunity to work on the right problem within an overall framework of needed personal or organizational purposes”. Nadler, G., & Hibino,
3. **The Solution After Next (SAN) Principle.** The uniqueness and purposes principles are used as a start point in understanding a problem. Solution-after-next principle seeks for alternative solutions based on future needs. The principle requests that the change or system installed now should be based on what the solution might be in the future. Nadler, G., & Hibino, S. (1994, 1998). *Breakthrough Thinking: The Seven Principles of Creative Problem Solving*, Prima Publishing, Roseville, CA.


Figure 2.10 – The Systems Matrix

<table>
<thead>
<tr>
<th>Fundamental: Basic or physical characteristics</th>
<th>Values: Goals motivating beliefs, global desires, ethics, moral matters</th>
<th>Dimensions</th>
<th>Control: How to evaluate and modify element or system as it operates</th>
<th>Interface: Relation of all dimensions to other systems or elements</th>
<th>Future: Planned changes and research needs for all dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose: mission, aim, need, primary concern, focus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inputs: people, things, information to start the sequence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outputs: desired (achieves purpose) and undesired outcomes from sequence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sequence: steps for processing inputs, flow, layout, unit operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment: physical and attitudinal, organization, setting, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human agents: skills, personnel, responsibilities, rewards, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical catalysts: equipment, facilities, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information aids: books, instructions, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. **The People Design Principle.** Considering this principle, “anyone has the potential to become a valuable contributor” in problem solving Nadler, G., & Hibino, S. (1994, 1998). *Breakthrough Thinking: The Seven Principles of Creative Problem Solving*, Prima Publishing, Roseville, CA. In many systems management is too often concerned about “competency” of individuals who can contribute with creative ideas in problem solving process. Unwillingness to change is very serious disease. Managers, living in their illusion of “ultimate competency” are likely to miss opportunities in utilizing creative and innovative ideas for problem solving and system improvements, due only to the arrogant attitude towards “low level ideas”, i.e. ideas coming from lower positioned associates within corporate hierarchy. Nadler G. & Hibino S. (1994, 1998) suggest solution: “give people related to or affected by change the continual opportunity to take part in operating or restructuring systems and preventing or solving problems.” Nadler, G., & Hibino, S. (1994, 1998). *Breakthrough Thinking: The Seven Principles of Creative Problem Solving*, Prima Publishing, Roseville, CA

7. **The Betterment Timeline Principle.** In this principle Nadler G. & Hibino S. (1994, 1998) support idea of successful breakthrough over a period of time. In other words, a breakthrough solution will occur if one works on a problem. However, that will not occur at a single point of time. According to the authors, “there is no such thing as a solution” Nadler, G., & Hibino, S. (1994, 1998). *Breakthrough Thinking: The Seven Principles of Creative Problem Solving*, Prima Publishing, Roseville, CA. In essence, this principle calls for continuous improvement and
sustainable development of SAN targets using the other Breakthrough Thinking principles.

Breakthrough thinking is definitely one of the best management practices that can be used in Croatia for scenario planning and creative problem solving. The Systems Principle, as a tool for searching for hidden problems and solutions will be used in this study. The Systems Matrix will be used as a tool in planning prospective futures of Croatian tourism as well as for defining some of the key factors for Croatian tourism development.
CHAPTER III
FUTURES OF CROATIAN TOURISM

This chapter will show possible future scenarios for Croatian tourism development. The economy is divided in two main categories, macroeconomic and microeconomic. Macroeconomics consider the broadest possible reach of economic theory, hence, following systems model should be considered as macroeconomic scenario for Croatian tourism development. Macroeconomic approach to a story about Croatian tourism development will be also shown through the systems matrix, as one of the breakthrough thinking tools. Systems matrix for Croatian tourism development will follow systems model.

Microeconomics puts its focus on much smaller economic system than macroeconomics. The focus will be on Croatian regional development. Some of the key microeconomic factors will be defined for Croatian tourism and economic development. Finally, more attention will be given to the place and significance of population, capital allocation and industry inter-sectors in microeconomic model for Croatian tourism development. Systems model, mutual causal diagrams and systems matrix will be used in this process.

The Macroeconomic Model for Croatian Tourism Development

This systems model (Figure 3.0, Figure 3.8) has been created to show possible futures scenario in Croatian tourism development. The model is used to show importance
Figure 3.0 – The Macroeconomic Model for Croatian Tourism Development

Source: Arkulin, 2001
of lifelong learning and understanding of tourism leadership and change in Croatia, and how that affects or will affect its environment at local, regional and global level. It also includes futures scenario, limiting factors to tourism development and prospective interventions. Two ideas are combined and shown here – purpose expansion and limits to growth.

The model (Figure 3.0, Figure 3.8) includes four reinforcing and three balancing loops. Reinforcing loops represent environment for tourism development, including physical or geographical environment - local, regional, global - and the future. On the balancing side, there are three main “limiting factors” – commitment, motivation and knowledge. Due to complexity of the model, the loops will be shown separately, starting with local environment (Croatia, R1) and its limits (commitment, B1, motivation, B2, and knowledge, B3). The same procedure will be followed for remaining three loops – regional (R2), global (R3) and the future (R4) will be shown separately with its limits in commitment (B1), motivation (B2) and knowledge (B3). Local level is shown in Figure 3.1, regional in Figure 3.2, global in Figure 3.3, and the future is shown in Figure 3.4. The discussion about model will end with Figure 3.8 – a duplicate of macroeconomic model for Croatian tourism development.

**Futures scenario at local level – R1B1/B2/B3 loops**

The story about Croatian tourism development has several different levels. Tourism re-development should start from local, Croatian, level. The start point for reading the model (Figure 3.1) is Lifelong learning and understanding of tourism leadership and change. That goal should be accomplished by using best western management practices, as well as creating its own management model. A holistic approach should be widely practiced in Croatian management theory, which will help development of Croatian companies. Top management, responsible for creating developmental actions, should be aware of vision, mission, strategy
and clear business development policy. Vision and leadership should be also Government’s responsibility; clear national strategy for economic development should be paramount here. One of critical elements for obtaining lifelong learning and understanding of tourism leadership and change will be utilizing intellectual capital.

True understanding should result in better commitment to the purpose, increased motivation and knowledge (Figure 3.1). That will probably result in stronger willingness to change and grow. However, raising the level of commitment, motivation and knowledge is not an easy task. Therefore, those categories are at the same time limits to growth and the cause for delay in increased expression and challenge.

Higher level of expression and more challenging environment should positively affect economic development of Croatia. Since establishing such an environment will be time consuming process, expect another delay (Figure 3.1).

Mutual causal linkage is present between economic development and enlightenment. The higher level of economic development will positively affect enlightenment, and enlightenment will help economic development. In other words, as developed economy is, as bigger horizons are, and vice versa (Figure 3.1).

Both stage of economic development and enlightenment should result in wisdom (Figure 3.1), which will positively affect the main purpose – Lifelong learning and understanding of tourism leadership and change. Higher level of wisdom will set new quality standards for accomplishing the main purpose.
Figure 3.1 — Futures scenario at local level – R1B1/B2/B3 loops

Source: Arkulin, 2001
Lack of commitment to purpose – Limits in R1B1

At Croatian level (R1B1 loop, Figure 3.1) time is one of the most important limiting factors. Creating and sustaining environment that will support lifelong learning and understanding of tourism leadership and change will be time consuming process. Croatian culture, affected by frustration, fear and lack of confidence will be resistant to a quick change. Transition problems and the communist mismanagement legacy brought these feelings to the nation over last couple of years. Unclear government policies, particularly in privatization process, resulted in varied goals and other commitments. Increased out-migration over last years is also limiting factor to increased commitment.

Lack of motivation – Limits in R1B2

In R1B2 loop (Figure 3.1) are shown limits to motivation at Croatian level. Numerous difficulties in Croatia over last decade affected Croatian culture with lost values, morals and low confidence. Many young people turned to out-migration, which has caused the so-called “brains flow”. Most of them would agree their new homelands gave them better opportunities for both professional and personal growth. Success stories from those people have negative impact on remaining Croatian manpower, attracting even more people to look for happiness abroad. Finding new motivation is a process rather than once-a-time action, so time will be another limit in achieving that goal. Lack of feedback and credibility are also limiting factors for increased motivation.

Lack of Knowledge – Limits in R1B3

Lack of knowledge is another limiting factor for lifelong learning and understanding of tourism leadership and change.
At Croatian level (R1B3 loop, Figure 3.1) limits can be found in time. Croatian educational system provides superior education in science or liberal arts. However, economic and business paradigms are still somewhat affected by previous heritage. Over last couple of years there can be seen improvement in economic education, especially with western schools entering Croatia and some reforms at Croatian schools of business. Yet, that is time consuming process, rather than solitary action. Finding right resources for obtaining better knowledge will be also important element here. Croatian culture and values are another limiting factor. The culture has been formed in “politically correct” environment, which means the politics has been too long and too much involved with economy. It was not rare to find managers that were politically correct rather than skilled. That brought “anti-values”, or philosophy that was enough to be close to the ruling party to be “successful”. Such environment resulted in lack of skill-sets, unpreparedness and lack of willingness to obtain better knowledge (Figure 3.1).

Futures scenario at regional level – R2B1/B2/B3 loops

Increased commitment, motivation and knowledge at regional level should result in better communication and increased multiple perspectives (Figure 3.2). It is also to expect delay here, due to lower level of existing commitment, motivation and knowledge.

Increased level of those values will eventually affect communication level (Figure 3.2). Increased knowledge will result in multiple perspectives.

Better communication and multiple perspectives will result in developed purpose and the new value system, which will help faster integration in global processes at regional level (Figure 3.2).

Integration in global processes and extensive participation in the community of developed countries will result in enlightenment, wisdom and increased lifelong learning and
understanding of tourism leadership and change (Figure 3.2). R2 loop goes back to R1, fulfilling the cycle (Figure 3.8).

Figure 3.2 – Futures scenario at regional level – R2B1/B2/B3 loops

Source: Arkulin, 2001
Lack of commitment to purpose – Limits in R2B1

At Regional level (R2B1 loop, Figure 3.2) culture is one of the major limiting factors. Old conflicts from the latest wars in the region caused resistance to integration and cooperation between former enemies. Although current relationship between those countries is significantly better than ten years ago, there are still many open questions and many mutual agreements to be made. Lack of awareness, fear and unclear expectations are also limits for extensive cooperation at regional level. Increased level of communication should help normalization and integration processes in the region.

Lack of motivation – Limits in R2B2

At regional level (R2B2 loop, Figure 3.2) similar frustrations can be found. Almost all of Croatia’s immediate neighbors, excluding Italy, are facing similar problems caused by transitional processes. Turbulent socio-economic environment resulted in lower level of awareness. Shared vision and mission for regional development either doesn’t exist or it is still on very low level. One of major limits to any convergence story in the region is a fear of loosing national identity. Independence and sovereignty are amongst very precious values in any country; however, over-concern with itself can be dangerous, leading to narcissism and isolation. Fear of competition in the neighborhood, and concern about leading role in prospective mutual actions are another reason for low level of motivation in the region.

Lack of Knowledge – Limits in R2B3/R3B3/R4B3

The essential limits to obtaining higher knowledge at regional and global level, as well as in the near future, are:

- Lack of exchanged vision
- Poor team culture
• Unclear value of each others’ knowledge
• Different experience
• Diverse environment
• Politics

Although called the same, those limits wouldn’t be completely identical at all levels. In other words, the “same” limit can’t be identical at all levels, due to complexity and diversity of different environments.

At regional level (R2B3 loop, Figure 3.2) environment and politics are limiting factors in obtaining better knowledge. Aforementioned fears and concerns negatively affect team culture development. Lately, political picture of the region has been positively changed, opening up a new era of opportunities for growth. However, the old problems and political immaturity in some matters still slow down development of exchanged vision for the future expansion. It is hard to define value of each others’ knowledge and share experience in such an environment.

Limits to increased level of knowledge at global level are shown in Figure 3.3 (R3B3 loop). Environment and politics are limiting factors in obtaining better knowledge. Diversity of World’s nations, political immaturity in some cases and both old and current conflicts negatively affect team culture development. It is hard to develop exchanged vision for the future expansion, as well as to understand and show respect to each others’ knowledge without team culture. Ability to grow together will be limited without sharing experience.

Environment and politics are limiting factors in obtaining better knowledge, by suspending team culture, exchanged vision and shared experience (Figure 3.4). It is also hard to define value of each others’ knowledge in such environment.
Futures scenario at global level – R3B1/B2/B3 loops

At global level (R3B1/B2/B3 loops, Figure 3.3), increased level of commitment, motivation and knowledge should cause higher level of experience through application of knowledge (Leadership principle). Like before, expect a delay, due to existing level of commitment, motivation and knowledge.

Leadership principle (Figure 3.3) should result in increased sharing of experience and learning at all levels. Sharing experience and learning at global level (R3, Figure 3.3) will result in mutual adjustment on global and in economic development at local level (R1, Figure 3.3, Figure 3.8). Increased level of economic development locally (R1, Figure 3.3, Figure 3.8) will speed up mutual adjustment at global level (R3, Figure 3.3, Figure 3.8). Mutual adjustment should result in enlightenment, wisdom and increased lifelong learning and understanding of tourism leadership and change. Mutual adjustment worldwide (R3, Figure 3.3) will also positively affect global cooperation in the future (R4, Figure 3.3, Figure 3.8). Like R2 loop, R3 loop goes back to R1 loop, fulfilling the cycle (Figure 3.8).
Figure 3.3 – Futures scenario at global level – R3B1/B2/B3 loops

Lack of commitment to purpose – Limits in R3B1

R3B1 (Figure 3.3) shows limits at global level. Lack of commitment to purpose at this level is again caused by culture. World’s diversity is reason for lack of shared value. Many
cultures have difficulties in defining economic importance of tourism development and obtaining lifelong learning and understanding of tourism leadership and change at global level.

Lack of motivation – Limits in R3B2

In global environment (R3B2 loop, Figure 3.3) limits to increased motivation are cultural diversity at global level, unclear vision and lack of understanding what will be the value of increased motivation to lifelong learning and understanding of tourism leadership and change.

Figure 3.4 – Futures scenario – R4B1/B2/B3 loops

Source: Arkulin, 2001
Another, maybe the biggest delay in the model is that associated with understanding and tolerance (Figure 3.4). Intensive interaction between nations should eventually bring better understanding and tolerance between different cultures, and increase global cooperation between nations. Understanding and tolerance will also help mutual adjustment at global level (R3 - Figure 3.4, Figure 3.8) and mutual adjustment will result in better global cooperation.

Intensive global cooperation will be key factor in solving global problems (Figure 3.4), which will result in humankind progress, enlightenment and wisdom that will move whole civilization forward. Once more, R4 loop goes back to R1 loop, fulfilling the cycle (Figure 3.8).

Lack of commitment to purpose – Limits in R4B1

Limiting factors for lack of commitment to purpose in future scenario are shown in R4B1 (Figure 3.4). In “The Age of Travel” lack of commitment to purpose will be caused by different mental models and different cultures at global level, which is also reason for biases. Different stages of development in different countries, as well as unequal level of technological development is limiting factor, too.

Lack of motivation – Limits in R4B2

Limits to increased motivation in the future (R4B2, Figure 3.4) will be again cultural diversity, time and willingness to change. Diversity of nations and regions in the World, political immaturity in some cases and both old and current conflicts negatively affect team culture development. It is hard to develop exchanged vision for the future expansion, as well as to understand and show respect to each others without willingness to change and mutual adjust. Ability to change and grow together will be time consuming process.
Following previous practice, possible solutions (interventions) will be shown separately, due to complexity of this systems model. There will be one set of interventions for each set of balancing loops, e.g. interventions will be divided as follows:

- Interventions to lack of commitment to purpose – interventions to B1R1/R2/R3/R4
- Interventions to lack of motivation – interventions to B2R1/R2/R3/R4
- Interventions to lack of knowledge – interventions to B3R1/R2/R3/R4

All interventions are directed to improve level of commitment, motivation and knowledge. Therefore arrows go back to those categories, fulfilling the loop, which can be seen in Figure 3.5, Figure 3.6 and Figure 3.7.

**Interventions to lack of commitment to purpose**

Interventions for increasing commitment to purpose at all levels should start with better organization (Figure 3.5). Better communication should result in adjustment, increased acceptance and flexibility. Government should also play important role in revising policies, renewing purpose, creating “action plan” and setting up development priorities. Increased implementation of technology will result in better communication. Better education will bring a new level of relevance. All mentioned should increase willingness to change and bring feelings of trust and comfort which will, eventually, result in renewed, improved and increased commitment to lifelong learning and understanding of tourism leadership and change.
Figure 3.5 – Interventions to lack of commitment to purpose

**LIMITS IN B1R1**
- Time
- Varied goals
- Culture
- Other commitments
- Frustration
- Fear
- Confidence
- Policy
- Out-migration

**LIMITS IN B1R2**
- Culture
- Resistance to integration & cooperation
- Old conflicts
- Communication
- Awareness
- Expectations
- Fear

**LIMITS IN B1R3**
- Culture
- Sharing value
- Economic importance

**LIMITS IN B1R4**
- Mental models
- Biases
- Different stage of development
- Technology
- Culture

**INTERVENTIONS**
- Organization
- Technology
- Better communication
- Revised policies & renewed purpose
- Create "Action Plan"
- Adjustment
- Acceptance
- Flexibility
- Willingness to change
- Set up development priorities
- Education
- Relevance
- Trust/comfort

Source: Arkulin, 2001
Interventions to Lack of Motivation

Possible interventions for increasing motivation should start with feasible developmental plan (Figure 3.6). Croatian government should play supportive role in bringing new policies, finding and utilizing human resources that can be “core element” for renewing purpose and creating new value proposition that can transform Croatia to value delivery system. Better organization will result in better image of destination, or transform the country to the “brand name destination” Such an environment will bring about new career opportunities, wellness and better quality of life, which will result in less out-migration and lower “brains flow”. Young professionals will stay in Croatia, which will increase human resources potential. Such new-built credibility can be model for wider region, which will result in increased listening, observing and sharing experiences. Increased level of cooperation will bring a new level of local, regional and global flexibility that will, eventually, result in trust and comfort. Technology and communication should be also important factor in achieving these goals.

Interventions to Lack of Knowledge

Interventions to lack of knowledge should start with changing environment (Figure 3.7). Renewing values, better understanding of the purpose, elements of the system and self will result in extensive cooperation, acceptance, understanding, respect and trust. Sharing, seeking and offering help will support good relationships. Such environment will result in new value propositions that will bring better leadership and gained experience through application of knowledge. It will be necessarily to create time to encourage these changes, as well as to create mechanism for sustaining that spirit.
### Figure 3.6 – Interventions to lack of motivation

<table>
<thead>
<tr>
<th>LIMITS IN B2R1</th>
<th>INTERVENTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>-CULTURE</td>
<td>-IMAGE OF DESTINATION</td>
</tr>
<tr>
<td>-TIME</td>
<td>-DEVELOPMENTAL PLAN</td>
</tr>
<tr>
<td>-LOST VALUE</td>
<td>-BUILDING CREDIBILITY</td>
</tr>
<tr>
<td>-MORALS</td>
<td>-CAREER OPPORTUNITIES</td>
</tr>
<tr>
<td>-FEEDBACK</td>
<td>-FEEDBACK</td>
</tr>
<tr>
<td>-RELEVANCE</td>
<td>-SUPPORT</td>
</tr>
<tr>
<td>-CONFIDENCE</td>
<td>-RENEW PURPOSE</td>
</tr>
<tr>
<td>-CREDIBILITY</td>
<td>-NEW VALUE/VALUE PROPOSITION</td>
</tr>
<tr>
<td>-OUT-MIGRATION</td>
<td>-ORGANIZATION</td>
</tr>
<tr>
<td></td>
<td>-TECHNOLOGY</td>
</tr>
<tr>
<td></td>
<td>-COMMUNICATION</td>
</tr>
<tr>
<td></td>
<td>-LOCAL/REGIONAL/GLOBAL FLEXIBILITY</td>
</tr>
<tr>
<td></td>
<td>-WELLNESS</td>
</tr>
<tr>
<td></td>
<td>-LISTENING/OBSERVING</td>
</tr>
<tr>
<td></td>
<td>-SHARING</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIMITS IN B2R2</th>
<th>COMMITMENT MOTIVATION KNOWLEDGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>-AWARENESS</td>
<td>Commitment</td>
</tr>
<tr>
<td>-NATIONAL IDENTITY</td>
<td>Motivation</td>
</tr>
<tr>
<td>-FEAR OF COMPETITION</td>
<td>Knowledge</td>
</tr>
<tr>
<td>-TRANSITION PROBLEMS</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIMITS IN B2R3</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-CULTURE</td>
<td></td>
</tr>
<tr>
<td>-VISION</td>
<td></td>
</tr>
<tr>
<td>-VALUE</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIMITS IN B2R4</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>-CULTURE</td>
<td></td>
</tr>
<tr>
<td>-TIME</td>
<td></td>
</tr>
<tr>
<td>-WILLINGNESS TO CHANGE</td>
<td></td>
</tr>
</tbody>
</table>

Source: Arkulin, 2001
Figure 3.7 – Interventions to lack of knowledge

**LIMITS IN B3R1**
- Time
- Resources
- Lack of Skill-sets
- Unpreparedness
- Willingness
- Values/Culture
- Out-migration

**LIMITS IN B3R2/R3/R4**
- Exchange Vision
- Team Culture
- Value of Each Others’ Knowledge
- Experience
- Environment
- Politics

**INTERVENTIONS**
- Preparedness
- Seek/Offer Help
- Sharing
- Create Time
- Value Propositions
- Trust
- Renew Values
- Understanding
- Acceptance
- Respect
- Encourage
- Change
- Environment
- Sustainability
- Leadership

**COMMITMENT**
**MOTIVATION**
**KNOWLEDGE**

Source: Arkulin, 2001
Figure 3.8 – The Macroeconomic Model for Croatian Tourism Development (Duplicate)

Source: Arkulin, 2001
Systems Matrix for Croatian Tourism Development – Macroeconomic Approach

A story about Croatian tourism development could be also shown through the systems matrix. Table 2.1 represents systems matrix for Croatian tourism development. The matrix is used to show current stages of economic and tourism development in Croatia as well as to show possible directions for tourism development in the future.

Lifelong learning and understanding of tourism leadership and change is fundamental purpose in this matrix. It promotes different values – economic development, new culture and new morals, particularly business morale. This new environment could result in stability, peace and wellness at all levels – local, national, regional and global. Measures of performance should be tracked through economic figures, as well as external benchmarking studies. In other words, it will be important to set up clear developmental vision with economically measurable targets (for example, number of overnights, sales rate, gross income from tourism, etc.).

External benchmarking efforts should be faced towards major competitors and neighboring countries (due to similar background). The control will be stage of dedication to vision and mission at all levels – local, national, regional and global. The future should bring higher level of commitment to fundamental purpose. Such environment should sustain continuous improvement and eventually result in transformation – Croatian tourism will become Value delivery system.

Croatia has already declared tourism as one of the most important factors in its economic development. Inputs to achieve its fundamental purpose should come from the Government, which should have ability to find and utilize manpower of experts in the
<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fundamental</strong></td>
<td>lifelong learning and understanding of tourism leadership and change</td>
</tr>
<tr>
<td><strong>Inputs</strong></td>
<td>- Government in the field</td>
</tr>
<tr>
<td></td>
<td>- New value set of policies &amp; renewed purpose</td>
</tr>
<tr>
<td></td>
<td>- New laws &amp; regulations</td>
</tr>
<tr>
<td></td>
<td>- Knowledge \</td>
</tr>
<tr>
<td></td>
<td>- Educational Institutions</td>
</tr>
<tr>
<td></td>
<td>- Individual</td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td>- Best practices: benchmarking, strategy thinking, IPA, &amp; DDPV</td>
</tr>
<tr>
<td></td>
<td>- Knowledge of all levels</td>
</tr>
<tr>
<td></td>
<td>- New knowledge</td>
</tr>
<tr>
<td></td>
<td>- New members</td>
</tr>
<tr>
<td><strong>Sequence</strong></td>
<td>- Global \</td>
</tr>
<tr>
<td></td>
<td>- Expert in service and hospitality at all levels</td>
</tr>
<tr>
<td></td>
<td>- Economic &amp; Tourism</td>
</tr>
<tr>
<td></td>
<td>- Benchmarking</td>
</tr>
<tr>
<td></td>
<td>- Educational institutions</td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td>- Government</td>
</tr>
<tr>
<td></td>
<td>- New members</td>
</tr>
<tr>
<td></td>
<td>- Economic &amp; Tourism</td>
</tr>
<tr>
<td></td>
<td>- Benchmarking</td>
</tr>
<tr>
<td></td>
<td>- Educational institutions</td>
</tr>
<tr>
<td><strong>Human Agents</strong></td>
<td>- Government</td>
</tr>
<tr>
<td></td>
<td>- New members</td>
</tr>
<tr>
<td></td>
<td>- Economic &amp; Tourism</td>
</tr>
<tr>
<td></td>
<td>- Benchmarking</td>
</tr>
<tr>
<td></td>
<td>- Educational institutions</td>
</tr>
<tr>
<td><strong>Physical Catalysts</strong></td>
<td>- Government</td>
</tr>
<tr>
<td></td>
<td>- New members</td>
</tr>
<tr>
<td></td>
<td>- Economic &amp; Tourism</td>
</tr>
<tr>
<td></td>
<td>- Benchmarking</td>
</tr>
<tr>
<td></td>
<td>- Educational institutions</td>
</tr>
<tr>
<td><strong>Information Aids</strong></td>
<td>- Government</td>
</tr>
<tr>
<td></td>
<td>- New members</td>
</tr>
<tr>
<td></td>
<td>- Economic &amp; Tourism</td>
</tr>
<tr>
<td></td>
<td>- Benchmarking</td>
</tr>
<tr>
<td></td>
<td>- Educational institutions</td>
</tr>
</tbody>
</table>

Table 3.1 - System Matrix for Croatian Tourism Development - Macroeconomic Approach
field as well as skilled individuals. Valuable input can be also found at educational institutions. Best practices and experiences of successful countries and businesspersons should be used as another important input. The value of using such eminent authorities is in their executive power, credibility and ability to sustain fundamental purpose.

Successful outcome of the input will be tracked through changed policies and number of the new foreign direct investments (FDIs) and domestic direct investments (DDIs) to Croatian tourism. The control can be left to specialized regional and global organizations – World Bank, European Bank for Reconstruction and Development (EBRD), World Trade Organization (WTO), etc. Their country reports and official ranking should be valuable element in controlling inputs. Future will result in total input from the community at all levels – local, national, regional and global. Not only professionals in tourism will be used for designing tourism development projects. Finding new partners and allies in typically “non-tourism” environment should be promoted.

Fundamental output in this system should be action plan for successful development, which will result in revised policies and renewed purpose. That will also bring better level of integration as well as higher willingness to change. Such output will result in new value set and new morals. Undesired outcome can be fear of losing national identity, which can cause stronger nationalism, new conflicts and delay in action plan. Outputs can be measured through the level of change in the culture, and controlled through specialized organizations – World Bank, EBRD, WTO, etc. The future should bring knowledge, enlightenment and wisdom at all levels – local, national, regional and global.

Best management practices – systems thinking, breakthrough thinking, benchmarking and DPV – should be used as fundamental steps for processing inputs. That should result in
new legal environment, i.e. new laws and regulations that will support sustainable development plan and bring both more FDIs and DDIs as well as help faster integration in global processes. Measures can be obtained through internal benchmarking studies and revision of policies and purpose. Data and figures collected from specialized regional and global organizations – World Bank, EBRD, WTO, etc. – should be used in control process. New theories, values and culture at all levels – local, national, regional and global – should be used as sequence in the future.

An important factor in obtaining lifelong learning and understanding of tourism leadership and change will be finding and utilizing both internal and external skill-sets. That should be entrusted to Government and ministries, especially Ministry of Economics and Ministry of Tourism. The control will be conducted by experts in service and hospitality at all levels – local, national, regional and global. Scientists, business persons and non-profit experts should be human agents for the future.

Technology, communication, infrastructure, media and educational institutions should be used in achieving fundamental purpose, forming values and establishing measures. Control should be obtained through permanent benchmarking at all levels – local, national, regional and global. The advanced technology will be physical catalyst in the future.

Information aids for achieving fundamental purpose can be found at educational institutions. Benchmarking output, competitors’ best practices, as well as brainstorming sessions and forums outputs might be valuable information aids, too. Benchmark will be information aid in measuring, and benchmarking in controlling. The future should bring sustained implementation of fundamental information aids through updating existing sources as well as finding the new ones.
Key Factors for Croatian Tourism Development – Microeconomic Approach

Microeconomic puts focus on much smaller economic system than macroeconomic. Therefore, main system of concern here will be Republic of Croatia and its regional development.

Chen, K.C. (1995). The development of a system dynamics simulation model of National park regions for educational use. Unpublished doctoral dissertation, Michigan State University - Department of Park, Recreation and Tourism Resources, defines seven inter-sector dependencies in the National park regional development model - tourism and recreation resources, capital allocation, economic, industry and services, population, social overhead and environmental. It is interesting how same approach, originally developed for the development of National park regions can be implemented in a story of Croatian tourism development. Following Mr. Chen’s (1995) example, several sectors in Croatian development will be:

1. Population
2. Capital Allocation
3. Industry
4. Economics
5. Environment
6. Social overhead

The main concern at this point will be given to the first three. Basic economic overview is given earlier in this study, and the study has already touched base with environment and social overhead. More detailed analysis of the last three sectors will be subject of some other study.
Table 3.2 – System Matrix for Croatian Tourism Development - Microeconomic Approach

<table>
<thead>
<tr>
<th>Elements</th>
<th>Dimensions</th>
<th>Population</th>
<th>Capital Allocation</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal</td>
<td></td>
<td>Better QOL through economic development</td>
<td>Returned investment</td>
<td>Operational and developmental partnership</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Generated profit</td>
<td></td>
</tr>
<tr>
<td>Input</td>
<td>Needs</td>
<td></td>
<td>Internal</td>
<td>Products</td>
</tr>
<tr>
<td></td>
<td>Motivation</td>
<td></td>
<td>External</td>
<td>Investors</td>
</tr>
<tr>
<td></td>
<td>Commitment</td>
<td></td>
<td></td>
<td>Shared market</td>
</tr>
<tr>
<td></td>
<td>Experience</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Experience (sequence)</td>
<td>Skill-sets</td>
<td></td>
<td>Credibility</td>
<td>Management practices</td>
</tr>
<tr>
<td></td>
<td>Multiple perspectives</td>
<td></td>
<td>Image of destination</td>
<td>Sales and marketing</td>
</tr>
<tr>
<td></td>
<td>Diversity</td>
<td></td>
<td>Knowledge</td>
<td>Products delivery</td>
</tr>
<tr>
<td></td>
<td>Creativity</td>
<td></td>
<td>Experience gained from previous</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Innovation</td>
<td></td>
<td>investments</td>
<td></td>
</tr>
<tr>
<td>Outcomes</td>
<td>Credibility</td>
<td></td>
<td>Sustainable model/mechanism</td>
<td>Action-plan for joint market approach</td>
</tr>
<tr>
<td></td>
<td>Action-plan</td>
<td></td>
<td>for capital allocation</td>
<td>Mutual beneficial relation</td>
</tr>
<tr>
<td></td>
<td>New theories</td>
<td></td>
<td>Generated wealth</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New values</td>
<td></td>
<td>Developed Croatian economy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New culture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long Term</td>
<td>Knowledge</td>
<td></td>
<td>Sustainable capital allocation</td>
<td>Model for long-term partnership between</td>
</tr>
<tr>
<td></td>
<td>Enlightenment</td>
<td></td>
<td>and utilization</td>
<td>industry and tourism</td>
</tr>
<tr>
<td></td>
<td>Wisdom</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Arkulin, 2001

The place and significance of population, capital allocation and industry inter-sectors in microeconomic model for Croatian tourism development can be better understood from the system matrix shown in Table 3.2.

Fundamental goal for Croatian population is raising quality of life (QOL) level through economic development (Table 3.2). Input should be motivation and needs-driven commitment. Experience is another valuable input. Utilization of the skill-sets, multiple perspectives, diversity of the population, creativity and innovation will be used as
sequence in this process. That should result in feasible action plan for economic
development and, eventually, in new theories, new values and new culture. All of that
should bring the new level of credibility in the society. At long-term that should result in
increased knowledge, enlightenment and wisdom (Table 3.2).

Returned investment and generated profit is main concern for any investor. That is
also main goal for capital allocation for Croatian tourism development (Table 3.2).
Investors should be found both externally and internally. Credibility, knowledge and
experience accumulated in previous investments are good credentials for prospective
investors. Good image of destination should attract such businesses or individuals.
Successful cases of capital allocation should be used for creating sustainable model or
mechanism for permanent capital allocation, which will result in generated wealth and
developed Croatian economy. Long-term commitment will be in creating environment
that practices sustainable capital allocation and utilization for not only tourism but all
purposes (Table 3.2).

The industry is interested in creating operational and developmental partnership with
tourism. The industry has a number of products that can be used in tourism. The same
market can be shared between both tourism and industry, and the same investors can be
interested in investing to both sectors. Management practices, products delivery and sales
and marketing experiences are important steps in processing inputs here. This relation
between industry and tourism can have an action plan for joint market approach for its
outcome. Such mutual beneficial relationship will result in long-term scenario with a
model for long-term partnership between industry and tourism, as sub-sectors of larger
system – the economy (Table 3.2).
Population

Figure 3.9 shows mutual causal relationship between population and tourism development. Population rate positively affects tourism development. Higher stage in tourism development positively affects population rate. Developed tourism means increase in visitor numbers and increased demand for labor force. New openings will cause bigger population rate and lower unemployment. Higher population rate means bigger labor force that will fulfill new openings. Tourism development will result in economic development. Economic development means more new openings, and more new openings will result in increased productivity, and, again, in higher level of economic development. Economic development negatively affects unemployment and out-migration. In the same time, it causes higher income. New openings will help higher income. Higher level of education will also positively affect income. Better education can be obtained with higher income. Good education helps better quality of life (QOL), and negatively affects unemployment. QOL is also affected by income. Income also affects QOL, both positively and negatively. Higher income means better QOL and less out-migration. On the other hand, lower income causes lower QOL and attracts out-migration. Out-migration negatively impacts population rate. Unemployment has negative impact to income and QOL. QOL is also related to population rate. Good quality of life in some area is likely to attract more settlers and increase population rate, which can positively affect tourism development, economic development and income.
Capital Allocation

One major concern in tourism development is capital allocation. Figure 3.10 shows relation between capital allocation and tourism development, as well as ultimate goal: developed Croatian economy. The model consists of four reinforcing and two
balancing loops. Reinforcing loops are government (R1), internal level (R2), external level (R3) and business results (R4). Balancing loops are time (B1) and relevance (B2).

**Reinforcing loops**

The start point for reading this model is capital allocation for tourism development (Figure 3.10). Start level for fulfilling that commitment is Croatian government (R1). Capital allocation should be a long-term commitment. The government should help in finding investors by creating legislative that both stimulates and protects investments in Croatian economy. Number of investors will affect number of new projects. There is mutual causal link between number of new projects and capital turnover. Increased number of new projects will cause faster capital turnover (Figure 3.10). In the same time, bigger capital turnover will bring more revenue that can be used for re-investment to new projects. Better capital turnover will result in generated wealth. Generated wealth will result in ultimate goal – developed Croatian economy, as well as easier capital allocation for the future tourism development ventures. Finding investors will result in building relationships. There can be also returning impact, i.e. better relationships can help finding investors in the future (Figure 3.10).
Figure 3.10 - Capital allocation - Tourism development

Result: Developed Croatian Economy

Generated Wealth

Sustainable model/mechanism

Customer satisfaction

Branding

Creating unique product/brand

Increasing turnover

Building relationships

Finding investors

Building credibility

Well-known value

Return to customers

Leadership culture

Building learning environment

Knowledge

Willingness to commit

Motivation

Communication

Long-term commitment

Capital allocation development

Business results

External

Internal

Government

Relevance

Time

B1

B2

B3

B4

R1

R2

R3

R4


68
R2 represents internal environment for capital allocation (Figure 3.10). It can be also called Croatian level, local level or microeconomic level. Number of domestic direct investments (DDIs) will be affected by building relationships. Number of quality DDIs will eventually result in creating unique Croatian product and recognizable brand name which will increase number of new projects. Increased number of projects will result in better capital turnover, generated wealth and developed Croatian economy (Figure 3.10).

Building relationships will also affect number of foreign direct investments (FDIs) to Croatian tourism at external level (R3, Figure 3.10). Increased FDIs will bring credibility and well-known value through internationally recognized brand names and service quality. That will result in returned customers and better image of destination at global level. Image of attractiveness will initiate more new projects and better capital turnover. The effect will be visible in generated wealth and developed Croatian economy. Comparing R2 and R3 (Figure 3.10), one can conclude that attracting FDIs will be better short-term commitment for re-developing Croatian tourism and through tourism economy at whole. Foreign capital and well-known brand names with global credibility they carry should be “ignition key” for starting the process. Finding internal investors for increasing DDIs will be more challenging task. Combining R2 and R3 (Figure 3.10) will probably be the best strategy for the future. Utilizing benefits from R3 and simultaneously developing R2 will eventually result in transition of Croatian tourism to value delivery system. The new identity of Croatian tourism could be an example for the region and Croatian model could be delivered to neighbors for their tourism development projects, bringing more revenue to Croatia.

R4 (Figure 3.10) represents business results. Building relationships will result in building learning environment at this level which will affect establishment of leadership
culture. Leadership culture will result in sustainable model or mechanism for capital allocation which will bring more generated wealth. The ultimate result will be developed Croatian economy.

**Balancing Loops**

Finding investors and building relationships will be a time consuming process (Figure 3.10). The length of interaction will be caused by implementation of knowledge and willingness to commit, i.e. level of commitment to a purpose – capital allocation for tourism development. Relevance is another limiting factor. At this level finding investors are impaired by willingness to commit, motivation and communication.

**Investment Opportunities through the Privatization Process**

Quality capital allocation can also be achieved through transition and privatization processes. Croatia, like other countries in the region, is a country in transition, which means a country that deals with period of adapting to new conditions due to a change in its economic and political system. Privatization process is one of the most important processes in transition countries. It indicates transition in ownership from state-owned to private-owned and operated businesses.

The privatization process in Croatia started back in 1992. The privatization process of the tourism sector has been slowed down primarily due to insufficient interest of foreign investors during the war years, between 1991 and 1995, and the period right after the war.

After a first post-war successful tourism season in 2000 with a growth in tourist overnights of 45%, that represents almost the pre-war level, there was noticed a significant increase in interest for foreign direct investments.
According to existing laws, prospective investors can invest in the Croatian tourism sector through the privatization process in two ways:

- Purchasing company shares, or
- Purchasing real estate facilities from the companies that have decided to sell the facilities not directly associated with their core business.

Sale of Company Shares

The so-called "large shareholders" that are selling shares through the privatization process are Croatian Privatization Fund, in charge of state-owned shares, and Privatization Investment Funds, dealing with individuals' coupon shares.

The Croatian Government is still the owner of a significant number of shares in the tourism sector and is the majority shareholder in a significant number of companies.

According to the Government decision, the Croatian Privatization Fund (CPF) is responsible for the management of all state-owned shares, and the technical implementation of the privatization.

In addition to the CPF, which manages the state-owned shares, the Privatization Investment Funds (PIFs) manage the shares of individual coupon shareholders. These are the shares, which were sold under preferential conditions during the final phase of the privatization process, called the "Coupon Privatisation". PIFs, by the law, must sell these shares within five years from their inception.

Some banks act as "large shareholders" that intend to sell their shares. Along with the so-called "large shareholders", some companies also have other shareholders: employees, former retired employees, former owners (according to the Law of Denationalization).
The prospective investor interested in buying shares from the PIFs, banks etc. will contact them directly in order to obtain all the necessary information. The PIFs, banks etc. are independent in their decision-making whether to sell shares that they are managing.

The prospective investor interested in buying State-owned shares will contact the CPF or the Ministry of Tourism in order to obtain the information regarding hotel companies with State-owned shares. When a prospective investor chooses the company he or she is interested to invest in, he or she will contact the Ministry of Tourism and CPF, present his or her business references and express his or her intentions particularly regarding the existing employees; creation of new job opportunities and investments in reconstruction and modernization of company facilities. The investor will be able to obtain information regarding the planned tenders for the sale of State-owned shares.

*The Model of State-Owned Shares Sale*

CPF is selling the state shares through public tender or public auction. The common rule is that the investor automatically takes over the debts of the company when he or she acquires the shares. Most companies have rather high debts accumulated during the post-war period. This is the main reason why their nominal value may be unrealistic. The purchase price of the company shares is reached through three steps or phases of the share sale. These phases are:

- **Phase 1: Nominal Value Sale.** The shares are sold at the initial price that is equal to the nominal value.
- **Phase 2: Discount Price Sale.** If the shares cannot be sold at the nominal value, CPF can define a lower initial price.
Phase 3: Special-Conditions Sale. If the shares cannot be sold at the lower initial price, CPF can define special-conditions of sale. Special-conditions sale can be applied in cases when there is no interest for the company due to high debts e.g. special-conditions sale may be the initial price of 1 Croatian Kuna (HRK).

**Sale of The Real Estate Facilities**

The companies in the process of privatization as any other company may decide to sell one or more of their facilities that do not represent the core business as real estate. A significant number of hotels and other facilities of the State owned companies have already been sold as real estate. The sale of facility - real estate is free of debts.

Investor interested in buying a facility - real estate (hotel etc.) should contact the CPF and the PIFs in order to obtain information as to which facilities - real estate is for sale.

**Industry**

Industry is another key factor in tourism and economic development. Mutual causal links between tourism development and industry are shown in Figure 3.11.

Tourism development will positively influence industry investment criteria. Industry investment criteria will positively affect industry investment plan and strategies, as well as industry investment rate. Tourism development will be start point in building alliances between tourism and industry sectors. Mutual beneficial correlation should be established in designing and supporting development of certain industries. The first step will be finding those products and services that can be used in tourism. Tourism can utilize existing ones, as well as help in designing new industries necessarily for its support. Developed tourism will mean increased number of visitors and bigger demand for Croatian tourism on tourism market. Generated revenue from increased number of
visitors will positively affect tourism development. More developed tourism will have negative impact on ecology, as well as on regional attractiveness. Increased number of visitors will attract more investors. It will also negatively affect regional attractiveness and ecology. Regional attractiveness will cause increase in number of visitors. It will also attract more investors. Ecological environment will positively affect both regional attractiveness and number of investors. More investors will help tourism development, and will cause higher industry investment rate. However, investors will have the need to be involved in industry investment plan and strategies, which can be negative influence. Higher industry investment rate will mean enlarged industrial capacity, which will cause increased number of products. Mutual causal link exists between number of products and demand on the market. Bigger demand will result in increased production and larger number of products. Increased number of products will cause saturation at the market and demand for the product will drop.
Further development

The main purpose of this chapter was to show possible future scenarios for Croatian tourism development, taking into consideration both a macroeconomic and microeconomic approach.

Future of Croatian tourism is mostly limited by time and culture. There are still problems in creating feasible master plan for Croatian tourism development, as well as national strategy for development. The government and tourism planners have ability to foresee the problems. However, when it comes to the action, the system fails.

Following chapter will bring conclusions, recommendations for the improvement and continuation of the study.
CHAPTER IV
CONCLUSIONS, RECOMMENDATIONS AND CONTINUATION OF THE STUDY

This chapter will show conclusions, recommendations for the improvement and the future use, as well as continuation of the study.

Conclusions

Holistic approach in management theory is still not a part of Croatian business reality. Development of the best management practices (since 1960’s more than 30 different models and approaches have been developed in the USA, Japan and Sweden) is multidisciplinary and hands-on oriented. Multidisciplinary approach includes economic, political, sociological, psychological and communication. Croatia needs to borrow best western management practices, as well as develop its own management model. Lack of contemporary management practices impairs prospective development of Croatian companies. Top management, typically responsible for creating developmental actions, too often overlooks importance of vision, mission, strategy and clear business development policy. Instead of that, Croatian business environment is full of biases with most actions quick-fix and short term oriented. The lack of vision and leadership is partly Government’s responsibility, due to unclear national strategy for economic development. Many Croatian companies have to deal with financial difficulties but even leading corporations in developed countries have their periods of bad business. The difference is that western corporations in such times immediately take actions and radically change
business approach. One of critical elements for undertaking new business practices is utilizing manpower. Using intellectual capital includes more empowerment and involvement of lower-level employees in creating development plans. Most of Croatian managers are still very resistant toward such ideas. They prefer to keep their own power and untouchable image. Croatian tourism, as a part of larger economic system, is not an exception.

The government realizes the importance of creating successful economic policies, but it seems the major problem is where to start. However, there were some benchmarking efforts in the recent past. Since 2000 many politicians and economists, among them President, have looked to Ireland as a model in creating new Croatian economic policies. Ireland is, in many respects similar to Croatia, with population of 3.8 million (Croatia 4.5 million) and similar land area. Two countries also share similar historical background. Ireland, just like Croatia has been overruled by others for centuries and with its departure from the Commonwealth in 1949 was able to sever its ties to England. Croatia declared its independence in 1991, followed by war 1991-1995. Ireland has achieved its highest level of prosperity between 1980 and 2000. The Irish GDP went from US$8,256 in 1980 to US$15,850 in 1998. Plese, M. (2000, November 9). The Irish Model of Economic Take Off. Nacional, 260, [On-line]. Available: www.nacional.hr.

Croatia today is one of the few European countries that have a smaller per capita GDP than it did in 1980, decreasing from US$ 7,236 in 1980 to US$ 6,488 in 1998. Plese, M. (2000, November 9). The Irish Model of Economic Take Off. Nacional, 260, [On-line]. Available: www.nacional.hr. Key factor in the Irish rapid growth and prosperity was acceptance to European Union in 1987. Prior to that, Ireland had very strong protectionist laws, as well as high customs and tariffs in place. There were also regulations to prevent
major FDI. After entry into the EU, Ireland was granted free access to a market with a population of 220 million, in the same time opening its borders to FDI, by fundamentally changing legislative framework. The result was increased employment and massively increased export. Unemployment rate dropped down from high 13.4% in 1990 to just 5.6% in 1999. Plese, M. (2000, November 9). The Irish Model of Economic Take Off. Nacional, 260, [On-line]. Available: www.nacional.hr. Croatian unemployment rate is still around as high as 13%.

The bigger limiting factor for applying the change in Croatian culture is due to ideological and political conditions. Croatian government publicly supports entering EU as top-priority goal in country’s development, but there are still some psychological barricades to creating successful political and economic reform. Roughly two decades of economic development were lost in Croatia through meaningless socialist discussion on the economy of the arrangement and the ideological dangers of capitalism, followed by devastating impact of the war for independence and the fear of losing national identity in globalization process.

Constitutional reforms passed by parliament in November 2000, brought strengthened democracy in Croatia. That was followed by positive movements in country development. However, the new government has not shown enough flexibility in constant change and adaptation in globalization process yet.

One of the biggest concerns is foreign investment. Although the entry of foreign capital to Croatia is generally supported, misunderstanding of FDI concept sometimes leads to fear of loosing freedom and national sovereignty. That fear is unfounded, as can be seen in the statistic for countries affected by FDI phenomenon. For example, up until 1998, the greatest foreign capital, US $6.5 trillion, entered into the United States. At the
same time, the US has invested US $4.9 trillion abroad, which shows that US $1.6 trillion more entered the US than left. Plese, M. (2000, November 9). The Irish Model of Economic Take Off. Nacional, 260, [On-line]. Available: www.nacional.hr. Even though more than 40% of all American firms are in foreign hands, this has not jeopardized American sovereignty, security and economic development. Another example can be found in Portugal. That country, only several years after entering the European Union, have received almost US $30 billion in foreign investments between 1993 and 1998. Companies under foreign ownership very quickly became Portugal’s main exporters, participating with over 50% in Portuguese total exports. The statistics for Ireland are pretty much the same. Poor atmosphere in Croatia, combined with political and ideological prejudices, inefficient legislative regulations and legal protection resulted with the lack of access to the world market and foreign companies have been coming to Croatia exclusively to fulfill domestic needs and not to produce for export. Disappointing fact is that some of the foreign investments in the recent past turned into media and court scandals. It is for sure that in challenging conditions of transition economy there are some individuals or businesses trying to benefit by using less legal methods. However, with foreign investors have been proclaimed crooks and thieves in public, no serious business would consider investing in Croatia.

Recommendations

The economic turnaround in Ireland happened after the legislative framework was changed, securing favorable conditions and security for foreign investment. A consensus had been reached between the government, entrepreneurs and workers unions concerning
the strategic directions for development. Numerous tax breaks and stimulation measures took place, which resulted in positive political and economic atmosphere for foreign investors. Ireland has no tax on profit obtained from manufacturing goods intended for export. There is no limit to the level of foreign capital allowed to Ireland and of its transfer abroad. Foreign shareholders do not pay taxes on profit dividends and the transfer of capital is unlimited and permitted for individuals in both permanent and temporary residential status. There are no barriers for foreigners to buy real estate. As a result many artists and celebrities decided to live in Ireland because they don’t pay tax. Croatia could definitely learn from this example.

Year of 2001 brought positive movements to Croatian tourism. The government made one of the most important decisions to stimulate tourism development – decision about 0% VAT (value added tax, normally 22% in Croatia) for organized arrivals of foreign groups. That was the key factor in revitalization of Croatian travel industry in 2001. Positive movements are recorded in all regions and small entrepreneurship responded in establishing more small stores, sport and cultural facilities. There were also opened about dozen small family hotels along the Adriatic coast. Good news for Croatian tourism is that government has decided to support it in this year as well. So far it was deducted about US$ 8 million from the federal budget for supporting tourism in 2002.

Continuation of the Study

This study has been created to analyze current stage of tourism development in Republic of Croatia, as well as to show prospective ways for tourism and economic
development in the future. The study found lack of contemporary management thought in Croatia as one of the most important limiting factors for further development.

Finding and utilizing best western management practices in Croatia should be key short-term goal on the way of changing management culture. Ultimate goal should be establishing best Croatian practices that will cause transformation of Croatian society into learning organization and value delivery system. Besides internally, Croatia could benefit externally from these practices. Best Croatian practices can become another export product, i.e. they can be offered to the other countries with similar problems and background. Exiting part about management is that it can be widely and inter-disciplinary implemented. Very same methods can be used for managing an enterprise, a city or a whole country or region.

Croatian tourism, as an integral part of larger economic system could also benefit from such practices. Although tourism is one of the most profitable branches in Croatian economy, it also has its larger purpose. Tourism is as an export activity due to generating foreign currency income. It should be also considered as an "ambassador" of the country, helping positive image of the country at all levels, from interaction with foreign companies, investors or consumers - tourists. One of the most powerful marketing tools is word of the mouth, and good image will help Croatia’s ultimate goals. For example, having celebrities in some destination has huge marketing impact on the local travel industry. Croatian Adriatic shore in 2001 hosted members of European royal families as well as prominent personalities from the world of business, sport and film. Unfortunately, that fact was not utilized for marketing purposes too well.

Croatia still needs stronger leadership at all levels. Leadership is not just a tool or skill that can be learned once at time. It is an attitude, an approach; it is a way of life.
Croatian society needs transformation in terms of understanding itself and its life-long goals. Therefore, education should be one of the first steps.

Croatia has well established system of domestic universities. Together with some foreign schools that represents good foundation for developing leadership principle – experience through application of knowledge. Domestic and foreign schools could establish mutual beneficial relationship. The first initiative has already been started in Dubrovnik, where Faculty of Tourism and Foreign Trade, Polytechnic Dubrovnik and Interuniversity Centre (Center for International Studies) have established relationship with American College of Management and Technology (R.I.T. Croatia). Those schools have merged and registered *International University in Dubrovnik*, which should be pilot-program for delivering multi-disciplinary and multi-lingual programs in the region. Such examples should definitely be the model for the Croatian future.

Continuation of this study will be finding the ways for establishing even more partnerships between local and foreign institutions of higher education. However, changing only management structure will not be enough. The new attitude should go in-depth to the lowest level. Professional development programs, certification programs and specialized training programs will be a whole variety of products to be offered at Croatian market.
REFERENCES


**Note:** Sources for statistical data: Government Institute for Statistic of the Republic of Croatia, Ministry of Tourism of the Republic of Croatia, Ministry of Economy of the Republic of Croatia, National Bank of Croatia, CROBEX.
APPENDIX 1
Republic of Croatia – General Information

Location:
Geographically situated in the hearth of Europe, northern part of country is connected to Central Europe and coastline lies on the Adriatic sea, part of the Mediterranean.

General info:

<table>
<thead>
<tr>
<th>Official name</th>
<th>Republic of Croatia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official language</td>
<td>Croatian</td>
</tr>
<tr>
<td>Alphabet</td>
<td>Latin</td>
</tr>
<tr>
<td>Currency</td>
<td>Kuna (100 Lipa)</td>
</tr>
<tr>
<td>Population</td>
<td>4,494,000</td>
</tr>
<tr>
<td>Number of islands</td>
<td>1,185 (66 inhabited)</td>
</tr>
<tr>
<td>Capital</td>
<td>Zagreb (nearly 1 million inhabitants)</td>
</tr>
</tbody>
</table>

Political system: parliamentary multiparty Republic

Area:

- Total state area 89,810 km²
- Territory area (land) 56,610 km²
- Aquatorium area (internal sea line) 33,200 km²
- Marine economy region (territorial sea line) 23,870 km²
- Total economy area 113,680 km²
- Coastline length 5,835 km
- Coastline length of mainland 1,777 km
- Coastline length of islands 4,058 km

Territorial-administrative structure:
20 counties and the Town of Zagreb with 121 towns and 416 communities

Important towns (listed alphabetically):
Dubrovnik, Gospic, Karlovac, Osijek, Pula, Rijeka, Slavonski Brod, Sisak, Split, Sibenik, Varazdin, Vukovar, Zadar

Anthem:
The Republic of Croatia's national anthem is "Lijepa nasa domovino" ("Our Beautiful Homeland").
Flag and Coat-of-Arms:

The Croatian National flag is red-white-blue tricolor (arranged in this order perpendicularly to the staff), with the coat of arms (13 red squares and 12 white squares arranged intermittently in a 5 times 5 pattern).

This coat of arms was affirmed by 15th century documents. It is a very old symbol of Croatia resembling a red-white chess table. Now it also has a crown composed of five regional symbols representing

1) The oldest known Croatian coat of arms,
2) Dubrovnik,
3) Dalmatia,
4) Istria and
5) Slavonia.

Culture:
Belonging to the Middle-European and Mediterranean cultural and civilization circle and tradition. Extremely rich and valuable cultural and historical heritage is pointing to a millennium old presence of Croatia in the area.

The specific urban culture of coastal and island areas is easily seen in towns such as: Porec, Rovinj, Pula, Zadar, Sibenik, Hvar, Korcula and Ston, with Split (Diocletian's Palace) and Dubrovnik representing a part of the world cultural heritage under UNESCO protection.

Climate:
Northern Croatia has a continental climate. Central, semi-mountainous and mountainous regions, as well as the entire Adriatic coast, have a Mediterranean climate. Spring and autumn are mild along the coast, while winter can be cold and snowy in central and northern regions.

Religions:
Roman-Catholics, Eastern Orthodox, Muslim, Jews, Protestants, others
Croatia – The Economic Profile

- GDP (1999) 20.2 US$ billion
- GDP per capita (1999) 4,483 US$
- GDP growth (1999/98) - 0.5%
- Inflation rate (1999) 4.2%
- Industrial output (1999) - 1.4%
- No. of active companies 60,000
- No. of registered banks (end of 1999) 53
- No. of employees (end of 1999) 1,016,000
- Foreign exchange reserves (end of 1999) 3.0 US$ billion
- FDI (1993-1999) 3.6 US$ billion
- Revenues from tourism (end of 1999) 2.8 US$ billion