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## Article

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## **CLUSTER AS A MODEL OF SUSTAINABLE COMPETITIVENESS OF SMALL AND MEDIUM ENTREPRENEURSHIP IN THE TOURIST MARKET**

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### **Abstract:**

Tourism has had an exceptionally long tradition in the Republic of Croatia. Therefore Croatia as such is not an unknown destination on the tourist map of the world. However, due to the globalization process and the increasingly strong competition in the tourist market, especially among the Mediterranean countries, several questions are raised: the question of competitiveness of the Croatian tourist product; as well as that of the competitiveness of Croatia as a tourist destination, and as an economy as a whole.

The answer to the question why Croatian tourism does not achieve results proportional to its natural resource basis is to be sought at the company level. In fact, even though debate over achieving competitiveness and economic development is still frequently associated with the macroeconomic level, it is becoming increasingly clear that wealth and competitiveness are accumulated at the macroeconomic level of an economy.

If we take into account that the main indicator of competitiveness of a company is productivity, in a broad perspective it being the basis of GDP, i.e. the standard of living in a country, it is easy to deduce that the productivity of Croatian companies falls significantly behind that of their European counterparts, where an especially big discrepancy is noticeable in the area of small enterprise.

Even though tourism is unconceivable without the existing natural and cultural attractions, modern research undoubtedly indicates that competitiveness is directly associated with advanced specialised factors based on knowledge, developed specialised infrastructure, high technology and innovation, with a natural correlation between innovative capacity of a company and its size. As those factors are frequently beyond the reach of small and medium enterprises, the question of making them more available is raised, with the purpose of increasing the competitiveness of a tourist product, namely service.

Precisely for this reason, in a time when there is a need of adjusting to a new value system in the European tourist market, where knowledge and innovation are becoming the backbone of competitive advantage, the implementation of a clusterization model in the tourist market can have a positive impact on the increase of economic efficiency of small and medium enterprises gaining their maximum from the environment in which those companies operate.

*Key words:* small and medium enterprise, competitiveness, cluster, productivity.

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## INTRODUCTION

Today, in open and integrated world economy, competitiveness takes central place in economic thought, both in developed and developing countries.

Period in which development of a state has been based on comparative advantages such as cheap labor force and natural resources has been long gone. Their place have been taken by so called specialized factors that derive from specific skills based in country's educational system, exclusive technological know-how legacy, specialized infrastructure, etc. Exactly these factors foster country's competitive advantages.

The main reason why specialized factors become more and more important are rapid technical and technological progress as well as development of information and communication technology during the last century. On the other hand, global market has made possible to locate production in regions that ensure high earnings yield while classical production has been replaced by sophisticated business operations based on market segmentation, knowledge-intense and service oriented products and service. Also fast and relatively inexpensive transportation has a positive impact on accessibility of physical inputs that increases the importance of intangible factors of production, especially knowledge. Instead of physical and financial capital crucial resource of modern business activity becomes intellectual capital and subsequently the majority of new outputs are non material products.

Although there are significant evidence that clusters ensure environment that enables development of specialized factors and evidence of high correlation between competitiveness and a business' ability to improve the quality of their products and services through constant innovation, clusters in service sector have been a matter of limited research. Traditionally the cluster concept has mainly been applied to the manufacturing industry in spite the fact that service sector is one of the fastest growing sectors of the economy with great future potential for income and employment growth.

There are numerous reasons why cluster-based approach to tourism industry has been a matter of limited research and political consideration. Though, most frequently absence of serious research has been explained by some rather unique features of a sector as well as with the assumption that innovations in tourism sector are non-existent.

However, as developed countries are generally moving towards a knowledge economy, where physical production to a large extent is being replaced by the productivity of knowledge and services, a shift of emphasis is taking place.

The overall purpose of this report is to emphasize clustering on tourism market as an important mean of improving economic efficiency of small and medium business subjects taking into consideration unique features of a tourism sector.

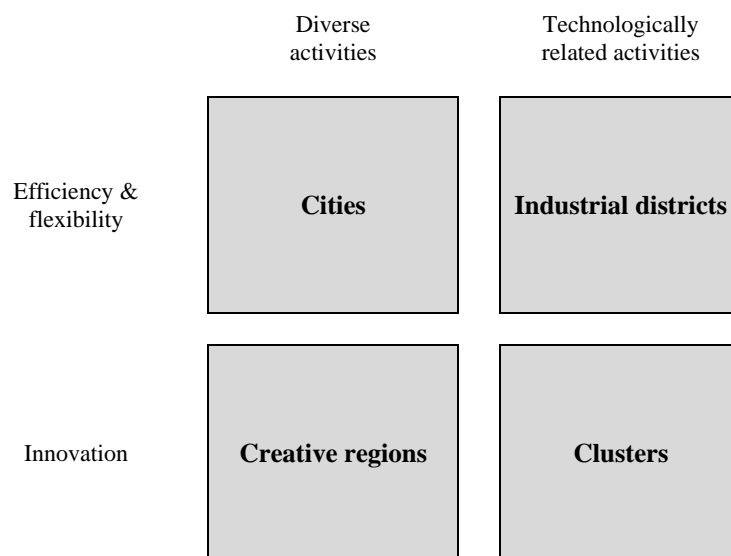
### 1. CLUSTERS IN PURPOSE OF COMPETITIVENESS

The theoretical roots of the clusters can be found even in Marshall's and later theory of agglomeration, however, studying the literature on clusters has led to the realization that, particularly in the 1970's, in the theoretical studies of regional production systems emphasize the interaction of industrial organization and historical, specific socio-

economic factors.<sup>2</sup> Although agglomeration is not a new concept in economic theory, the application of clustering models in contemporary economics is primarily the result of research of Professor Michael E. Porter.

Porter emphasizes that the production must be seen as a system of interrelated actors and operations, thereby accepting the fact that agglomeration is not a new concept, but at the same time stressing that the primary reasons for agglomeration has changed.

**Picture 1:** Four types of agglomeration



Source: Sölvell Ö., *Clusters – Balancing Evolutionary and Constructive Forces*, 2nd ed., Danagårds Grafiska, Ödeshög, January 2009, p. 14

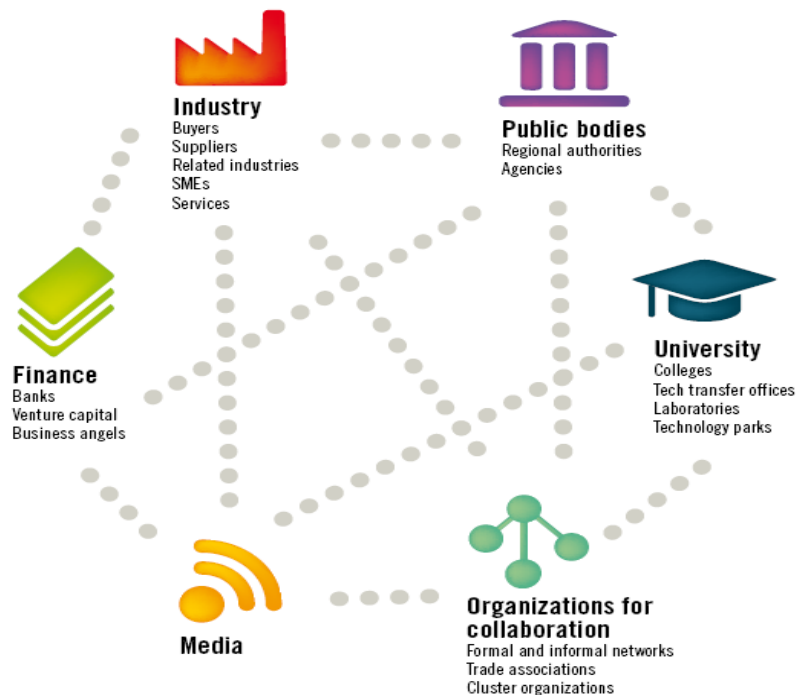
In the past agglomerations represent the necessity for easier access to raw materials or to gain economies of scale while today they are still a matter of deliberate choice. In fact, studies have shown that the concentration of companies in a particular area, where the links between businesses are exceptionally strong, it creates an environment that is characterized by high rates of innovation, training, knowledge sharing and quality of workers, resulting in continuous development of high quality products and services. Simply put, regarding the theory of the cluster, there is a correlation between competitiveness and the ability of a company that continually improves its products and services, and it is continuously innovating.

Consequently, the notion of cluster best sums up the definition given by Michael E. Porter:

<sup>2</sup> Tijanic, Lela, *Politika Europske unije u formiranju klastera*, u *Ekonomika istrazivanja*, Vol. 22, No. 1, March 2009., p. 2

„Clusters are geographic concentration of interconnected companies and institutions in a particular field, linked by commonalities and complementarities“.<sup>3</sup>

**Picture 2:** Participants in the clustering process

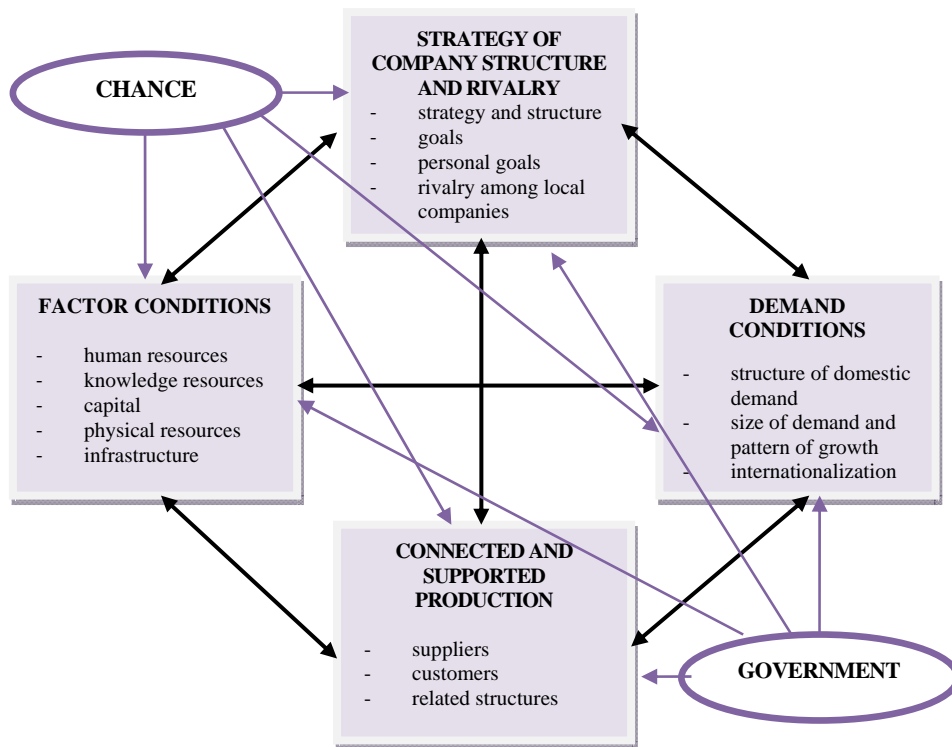


Source: Sölvell Ö., *Clusters – Balancing Evolutionary and Constructive Forces*, 2nd ed., Danagårds Grafiska, Ödeshög, January 2009, p. 16

The definition clearly shows a strong interaction between different actors in the process of clustering, which is best manifested through the relationship shown in the Porter "diamond". Namely, the "diamond" refers to four main factors and two external variables that are the basis of long-term competitiveness of companies operating within a particular setting and in the heart of one of the factors (related and supporting industries) is located in the cluster.

<sup>3</sup> Porter, M. E., *Clusters and the New Economics of Competition*, Harvard Business Review, Vol. 76, Issue 6, Nov/Dec 1998, p.78

**Picture 3: Porter's "diamant"**



Source: National Council for competitiveness, on <http://nvk.multilink.hr/konkurentnost1.asp>

As the "diamond" shows, all aspects of the business environment are important, and there is no single policy or strategy that could achieve competitiveness. Relationships among the factors are interactive, a good position of one factor is positively reflected on the other. Weakness was also a factor which limits the potential of all others. It can be concluded that the public and private sectors are interconnected to create a productive and competitive economy. As much as the prudent fiscal and monetary policies, an efficient legal system and stable democratic institutions necessary for a successful economy, they are not in themselves sufficient. Ultimately, wealth is created at the microeconomic level of the economy, which is based on the quality of the microeconomic business environment and operating practices and strategies at company level.

## 2. FEATURES AND BENEFITS OF CLUSTERING PROCESS ON TOURIST MARKET

In the introduction has already been discussed about neglecting of clustering model in the tourism sector which is justified by the specifics of the tourism market.

Most often, it was claimed about two main reasons: lack of innovation in the tourism sector, and the presence of a large number of micro and small operators unwilling to cooperate, which are an obstacle to development and networking.

However, innovation in the tourism sector has the same significance as in production. What is different is the fact that innovation in tourism is not associated with conventional research and development, and therefore take different forms which makes them much harder to recognize. They come in the form of:<sup>4</sup>

- Manufacturing innovations,
- Process innovations,
- Management innovations,
- Logistics innovations and
- Institutional innovations.

In addition, the tourism sector is characterized by a significant specificity. Most of new ideas in tourism is impossible to protect patenting, which results in rapid copying by competitors and thereby losing the competitive advantage.

Therefore, it is clear that the innovations are an integral part of the tourism sector, but it is much harder to recognize and institutionalize them than it is the case in classical manufacturing sector.

.Regarding the large number of micro and small companies in the tourist market which is largely characterized by an unwillingness to cooperate, a solution to this problem lies in raising the level of knowledge regarding the benefits of the process of clustering which are presented in the following table.

**Table 1:** Potential benefits of the clustering proces sin the tourism market

POTENTIAL BENEFITS	REASONS
Reduce risk and deal with uncertainly	By creating a shared mass of technical competencies, market intelligence, as weel as human and financial resources, organisations can be more prepared to address unexdpected events.
Block or co- opt competition	The access of competitors to strategic resources is curtailed thanks to the greater operative strength or thanks to their joining the partnership.
Create economies of scale	The greater dimensions covered (purchases, booking, sales, ect.) lead to a lesser incidence of unit costs. Operative effectiveness increases. Greater capacity to negotiate with intermediaries is achieved.
Opportunities to develop purpose economies	The collaboration spirit allows greater distribution of specialisation. There is more space for operating in market niches, thanks to less internal competition.

<sup>4</sup> Nordin, Sara: *Tourism Clustering & Innovation: Paths to Economic Growth & Development*, European Tourism Research Institute, Mid-Sweden University, Östersund, Sweden, p. 27-28

Greater market control	Companies joined together in partnerships can move in larger markets.
Grow of technological and organisational know – how	The circulation of knowledge enhances the diffusion of technologies and the development of new operative techniques.
Reinforcement of image and notoriety	Brands are reinforced at company level and at destination level, both towards the customers and the suppliers.
Company growth both in terms of product quality and process efficiency	Operating in collaboration generates a healthy competition among companies that tends to raise both product quality and management skills.
Conditions for an effective area marketing	There cannot be an effective marketing action for the destination without the support of an integrated and coordinated supply system.
Creation of synergies	Partnerships and the distribution of functions allow to create innovative products, renew production processes and give life to new creative skills.
Positive effects on territorial economy	The strong inter – dependence between tourism and all economic activities enhances the diffusion of the acquired benefits to the entire territorial economic system.

Source: Machiavelli, A., 2001. prema Nordin, Sara: *Tourism Clustering & Innovation: Paths to Economic Growth & Development*, European Tourism Research Institute, Mid-Sweden University, Östersund, Sweden, p. 33

### 3. ECONOMIC EFFICIENCY OF SMALL AND MEDIUM ENTERPRISES IN TOURISM MARKET IN THE REPUBLIC OF CROATIA

In order to strengthen the competitiveness of Croatian small enterprises in the tourist market, primarily to analyze the economic efficiency of small and medium enterprises which form the basis of income and employment in the tourism sector.

It is not possible to offer a proposal of measures to increase economic efficiency without objective analysis of the current situation, consideration own strengths and weaknesses, and analyzes factors affecting the economic situation and business performance.

The special attention should be paid to the scale of productivity as the primary basis of economic efficiency and to achieve long-term economic competitiveness.

Looking at the productivity of small and medium-sized businesses over the last fifteen years we can observe a trend of continuous lagging productivity of small and medium enterprises to large productivity and starting with 2005. year. It is obvious that the main carriers of large enterprises increase productivity and economic structure of Croatian. This confirms the thesis that the modern administrative technologies, and the concentration of knowledge and innovation as a function of increasing business productivity with respect to the availability of these factors directly linked to company size.



Similarly, a comparative view of productivity achieved in the Croatian and European firms indicates significant lag of Croatian companies in relation to Europe, where the largest gap is present in the small economy. Furthermore, there is a totally opposite trend with the highest rate of productivity in the European Union realized that small businesses, while small firms in Croatia is characterized by far the lowest rate of productivity.

But that is the subject of labor productivity of small and medium enterprises operating in the tourist market of the Republic Croatian it is necessary to isolate analyze data relating to the financial operations of companies in the business of providing accommodation services, and preparation and serving of food.

The analyzed sample includes 4697 firms in 2008. year, tax payers, which are based on the new Accounting Act (Official Gazette No. 109/07) of 01 January 2008. was obliged to submit annual financial reports to be published in the Register of Annual Financial Statements. Structure of enterprises by size of business accommodation services, and preparation and serving of food, indicating the dominance of small and medium enterprises that make up even 99% of the total structure, while 97% are small businesses. Small sector of the economy when it employs 74% of all employees and achieved as much as 67% of overall revenues once again confirming its importance as a generator of employment and economic development.

However, when analyzing the productivity of enterprises by size, running the same conclusion as in the case of observing the productivity of enterprises country level regardless of the sector in which they operate. Small businesses, which dominate the tourism market share in the total number of enterprises, and generated the highest employment rates and income, also showed the lowest rate of productivity.

Given their dominance of the tourist market and the fact that she can act and strongly discouraging or encouraging the development of the sector, it is necessary to discover the causes of this situation.

First of all, it is important to analyze the microeconomic environment in which businesses operate according to the theory of the cluster there is a high correlation between competitiveness and business environment.

#### **4. ANALYSIS OF "DIAMANT" ON THE CROATIAN EXAMPLE**

Looking at long-term competitiveness of the factors presented in the form of the Porter's "diamond" can be, at least in part, unsatisfactory samples to determine the quality of business environment in which Croatian tourism companies operate.

Although competitiveness significantly depends on the availability of basic resources such as land, labor, capital, natural and cultural resources, and in tourism attractions, they are not, despite popular belief, the key to achieving competitive advantage. Specifically, if the basic resources were provided competitiveness Netherlands would never be a leading country in production of flowers, and Dubai wouldn't become one of the world's most visited tourist destinations. This once again confirms the statement of author by claiming that the basic factors of a good base for development, but those specialized make key to competitiveness. The best examples of such specialized factors in tourism are human resources resulting from the quality of the education system of the country, specializing in infrastructure that allows you to visit natural attractions, appropriate capital market willing and able to finance long-

term tourism projects, quality public infrastructure, etc. This is also partly answer to the question why the Croatian tourism doesn't realize competitiveness of the exchange of exceptionally rich natural and cultural basis.

Demand conditions that make the advanced needs of customers / tourists, domestic market size, growth rate of domestic demand, also point to the problems. The process of globalization is not, as might be expected, downplayed the importance of demand in the local market. The proximity is still an advantage because there is the greater opportunity to participate in joint projects, dialogue is easier, and communication channels in such a relationship are much shorter. Even today, successful cooperation between companies and demand affects the need for innovation, and sophisticated demands of tourists are necessary factor in predicting trends and new desires. Tourist market on which the product is still dominated by the "sun and sea" and the low purchasing power of domestic tourists do not contribute to improving the quality of factors of long-term competitiveness.

Strategy, structure and competitiveness of businesses include the conditions under which the company was founded, organized and run, and the nature of domestic competition. It is particularly important the presence of strong competition, since in this way puts pressure on companies to continually innovate and improve our services. The competition and rivalry in the tourism sector, as a rule, exist on two levels: local and international. Local businesses (hotels, restaurants, travel agencies) in each sector compete for workers, better service, prestige, and ultimately market share. In general, there is a high correlation between the degree of rivalry in some sectors and initiatives to raise the existing standards and introduce new products. In the international market competition is closely linked to politics of positioning and marketing campaigns that seek to attract tourists to the destination. But even then, a source of competitive advantage lies in the firm or a cluster, because marketing to introduce a product or service in this case, it is not possible if its companies are not able to produce.

Related and supporting production make very core of the cluster. Relating to specialized local suppliers and subcontractors, and complementary manufacturing, which create together a competitive sector. These are market participants with whom there is close cooperation, better communication, mutual interest and continuous learning, and are particularly important for the tourism product where a strong co-operation particularly expressive. Despite the fact that tourism is a major export sector of the economy, the analysis of this factor leads to an insufficient degree of development of clusters, the relatively weak co-operation among members of existing clusters, weak cooperation among different clusters, and an insufficient number of local suppliers.

To sum up, it is necessary to mention the role of one of the two external variables - the state. Tourism should be designed not only private companies. Indeed, the government plays an important role in investment, construction and management of tourism development.

In addition it can significantly improve the competitiveness of the destination through a tangle of different measures, such as education, research, exchange rates, laws regulating competition, labor market, taxes, control of environmental pollution, etc., it is equally wrong move could worsen. Tourists can not be isolated within the hotel room because he wants to participate in the life of the community you are visiting. It is therefore a key link in the chain of quality tourism cooperation between

the private and public sectors that are intertwined and the track in all segments of the offer.

The role of government in Croatia traditionally has a great significance. Part of this interest stems from the achievements of the past, but the vast majority has its foundations in the present tense. The process of transition has not been completed, and the elements that make up the quality of business environment are not at a satisfactory level as demonstrated by an analysis of Croatian "diamond". It is in the area of improving the business environment of the state will play a major role, while the quality of this process will depend on the quality of business entities in the tourism market, which will be reproduced on Croatian competitiveness as a tourist destination.

## CONCLUSION

Analysis of the economic efficiency of small and medium enterprises, which constitute the backbone of the Croatian tourism sector points to the extremely low level of their productivity, and it ultimately forms the basis of the competitiveness of enterprises and the nation as a whole.

Recent studies strongly indicate that competitiveness is directly linked with advanced specialized factor based on knowledge developed specialized infrastructure, high technology and innovation, where there is a natural correlation between the innovative capacity of enterprises and its size.

How exactly these factors are often unavailable to small and medium-sized enterprises, the question is how to make them more accessible, in order to increase competitiveness of tourism products and services.

In response to this question naturally arises with the use of cluster models since they represent the dynamic creation based on knowledge and innovation, and create the environment in which they occur often changes in response to social and economic developments.

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