Building resilience in times of global crisis: the tourism sector in Croatia

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Abstract
The COVID-19 pandemic and consequent global travel restrictions created an unprecedented crisis for the tourism industry. Considering that tourism generates about one fifth of the Croatian, the COVID-19 crisis posed a threat not only to companies in tourism, but also to the Croatian economy as a whole. This article examines the interplay of public and private institutions whose aim was to support resilience in tourism and prevent negative spill overs to other sectors. The regional Civil Protection Headquarters and a large hospitality company were analyzed as a part of the resilience assessments. Although both institutions have shown a high level of agility and resilience in their crisis management, this article outlines the deep societal interdependence between the public and private sector in times of global crisis.

Keywords Resilience · Tourism · Public institutions · Private sector · Croatia

Introduction

According to the Oxford COVID-19 Government Response Tracker (2021), at the beginning of the pandemic in March 2020, the Republic of Croatia was in the group of countries with the most severe restrictions and measures aimed at preventing the spread of the new coronavirus. The government imposed a strict lockdown that was relaxed in May 2020, when public transport, hospitality and religious facilities resumed their activities. The country was among the first EU member states to fully

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reopen during the 2020 summer tourist season, primarily due to the importance of tourism in the Croatian economy.

According to the official data published by the Croatian Ministry of Tourism and Sport, 2019 was a record year for Croatian tourism, with nearly 21 million arrivals and 108.6 million overnight stays, a 2.4 percent increase from 2018. Positive trends were expected to continue in 2020, and tourist turnover was estimated to be between 3 and 5 percent higher (Ministry of Tourism and Sport 2020). Inbound tourism contributes significantly to the domestic output in Croatia, so in 2018 the total contribution of tourism to GDP was estimated at 19.6%, while tourism provided for 6.6% of total employment (OECD 2020). When COVID-19 started spreading, it was certain that even with curbing of the infection in the coming months, the number of tourists in Croatia in 2020 would decline drastically compared to 2019 and the years before (Klarić 2020).

This article will explore the institutional resilience in the sector of tourism in Croatia during COVID-19, by analyzing the case involving two stakeholders: the regional Civil Protection Headquarters (CPH) located in the most tourist of Croatian regions—Istria County, and Valamar Riviera Plc, the largest company in the hospitality industry in Croatia, headquartered also in Istria. These two institutions were selected as an example of a partnership between public and private stakeholders during the unprecedented crisis caused by COVID-19. This crisis hit the tourist sector strongly and suddenly, and such a partnership was necessary to ensure the resilience of tourism, a sector crucially important for the entire Croatian economy. Given that tourism cannot be separated from sectors such as transport, culture, sports or agriculture, the crisis caused by COVID-19 had the potential to hit the Croatian economy much more severely than it would other countries.

The interplay between key stakeholders in Istrian tourism yielded good business results in times challenging for the entire sector, demonstrating that a cooperation of stakeholders in crisis serves as a key element of societal resilience. During the entire pandemic, Istria County achieved very good results from tourism, by far the best in Croatia with respect to the number of tourists in 2020, which was facilitated by extraordinarily efficient measures aimed at preventing the spread of the virus. That is, according to Koronavirus.hr (2021), the national official data source, the analysis of cumulative cases of COVID-19 in Croatian counties in late June 2021 showed that Istria had the lowest number of such cases per 100,000 inhabitants, despite a significant number of tourists visiting the area. Safety was a key competitive aspect in tourism during the pandemic and Istria’s Civil Protection Headquarters communicated it very directly (Ivanović 2020).

Good results in Istrian tourism were mostly driven by the synergic action between key public institutions and an agile business sector. The institutional eco system that enabled Istrian tourist companies to operate successfully during the first wave of the pandemic was the regional civil protection task force, the Civil Protection Headquarters (CPH). CPH is an operational body that coordinates civil protection activities prior to an emergency and during the implementation of measures and activities that alleviate problems during major disasters and accidents. The civil protection system in Croatia encompasses three levels with different roles and responsibilities: state, regional and local authorities. The Istria’s CPH immediately established itself...
as undisputed leader in the fight against the pandemic in Istria, showing an extraordinarily proactive approach in dealing with the situation at hand. Therefore, as a good example of an appropriate public institutional reaction to the pandemic, it will be analyzed further.

In the private sector, Valamar Riviera public limited company was selected for the case study analysis. This private hospitality company is among the ten largest companies in Croatia by market capitalization, and as such is significant for the economy as a whole. With headquarters in Istria County, the company operates 36 hotels and resorts and 15 camps in prime coastal locations in Croatia. Its business operations are marked by strong seasonality, as it receives most guests in the summer (May–September). For this reason, in addition to the permanent staff of 1900, Valamar Riviera takes on a number of temporary employees in the peak season, reaching the total of around 7000 workers.

The company pursues a growth driving strategy focused on investments in highly added-value products, talents, innovative services and destinations to maintain business continuity. In the last 17 years, Valamar Riviera has invested more than EUR 800 million in its destinations, which makes the company one of the top Croatia’s and regional investors in tourism (Valamar 2021). Due to its strong commitment to investments, and increasing the quality of hotels and the overall offer, before the COVID-19 pandemic Valamar recorded constant annual growth in both overnight stays and average daily rates. At the start of the pandemic, Valamar Riviera was preparing for the summer season. With the outbreak of the pandemic, the company launched several action plans to stabilize its operations and protect the health of guests and employees, and activated full-scale operating procedures for dealing with the crisis, focusing on maintaining business continuity and preserving jobs. Valamar modified its products and accelerated the development of digitization projects in order to improve service quality and safety for the 2020 tourist season.

In this article we first present the results of institutional resilience in the selected public institution and a private company, based on three indicators: preparedness, agility and robustness. This is followed by the assessment of the societal impact of resilience, and the conclusions that stem from the analysis.

**Tourism resilience in times of crisis in Croatia**

Institutional resilience of Croatia’s sector of tourism during the COVID-19 pandemic was assessed based on three criteria: preparedness, agility and robustness (Gherghina et al. 2022). The summary of scores is provided in Table 1.

**Preparedness**

Croatian tourism was last hit by a crisis in 1990’s, when the country was at war (Payne and Mervar 2002). After recovery in 1995, tourism in Croatia grew steadily at high annual rates, showing no signs of crisis. Innovations in hotels and upgraded quality of human resources, key for hotel management and operations, increased
| Indicator | Public institution | Private sector |
|-----------|--------------------|----------------|
|           | Score | Reasons for score                                      | Score | Reasons for score                                      |
| Preparedness | 3     | Lack of organizational preparedness due to ad hoc nature of the CPH | 2     | Constant growth in the number of tourist arrivals      |
| Agile     | 5     | Negotiation with the national civil protection headquarters to strengthen or relax various measures in Istria Agile communications with the public and the business community | 5     | Established risk management procedures                  |
| Robustness | 5     | Navigating the needs of Istrian companies in respect to the fiscal relief and liquidity measures initiated by the government Active coordination with other subjects in making preparations according to different scenarios of COVID-19 pandemics development | 3     | Financial stability despite lack of demand for company’s products and stopped operations |
the competitiveness of the sector on the international market (Čižmar 2007). The national Development Strategy of the Republic of Croatia by 2030 cites tourism as a strategic industry, adding however that due to its significant contribution to the overall GDP, problems and challenges in the sector represent a threat for the overall stability of the Croatian economy (Official Gazette 2021). As a result, the level of stakeholders’ preparedness for the crisis was very low.

The COVID-19 pandemic was the first ongoing challenge for Istria’s CPH, and due to the unprecedented nature of the crisis, it was impossible for CPH to predict and prepare for it. One of the reasons is the fact that civil protection authorities are by their definition not permanent organizations that build their own structures and strategies over time. These organizations are established in cases of emergency, which is why preparedness of the organization always lacks strategic continuity and cultural bonds. Therefore, the organization’s risk-management plans did not cover this kind of widespread pandemic and the adequate response had to be developed in real time. As a result, the overall preparedness of the CPH can be rated with grade 3.

As for Valamar Riviera hospitality company, total revenues were increasing steadily year after year, and given the favorable environment the company was pursuing growth strategy with strong commitment to new investments and developing high-quality tourism products (Valamar 2021). The company was planning a EUR 110 million investment cycle for 2020 and the CEO had already announced future strategic investments based on planned positive business results in future (HRT Turizam 2019).

However, the circumstances caused by the COVID-19 pandemic severely impacted the entire sector of tourism, and Valamar Riviera was no exception. Lockdowns, national restrictions on movement and border crossing between EU member states from March to May 2020 essentially suspended national and international travel and left the company with no revenues. For Valamar Riviera this was an unprecedented disruption and a serious threat to its operations, for which the company had not prepared (score 2).

Agility

The agility of Croatia’s tourist sector’s reaction to the pandemic outbreak was impressive and can be awarded the highest grade (5), based on a rapid response by both public and private stakeholders. Although Istria County CHP did not play a significant role before the pandemic, during the COVID-19 crisis it managed to position itself as one of the key pillars of safeguarding Istria from the outbreak. The response of Istria’s CPH to the situation was resolute, both in its fast initial reaction and subsequently imposed measures, which enabled it to keep the situation under control.

In the hierarchy of civil protection organizations in Croatia national headquarters are at the top, followed by county headquarters at the intermediate level, and municipal and city headquarters at the local level. During the pandemic, Istria County civil protection authorities have on several occasions addressed the national-level organizations with requests to either strengthen or relax measures specifically in
their county, depending on the local circumstances, and most of their proposals were accepted HINA (2020b).

As for the private sector stakeholder, the management of Valamar Riviera undertook proactive initiatives to prevent the negative impacts of the pandemic almost as soon as the crisis started unfolding. Firstly, the company was eligible for government support which it used to finance employee salaries. In addition, it created short-term plans focused on employee protection, and implemented numerous changes into its tourism products in order to ensure the safety and health of both guests and employees, and to increase operational efficiency (Valamar 2021). For example, as the hotels were closed, the company offered fully innovative services, such as introducing an online grocery store that offered their products (e.g., prepared meals) and their partners’ products, thus creating a completely new sales channel to compensate for losses from core operations.

In April 2020, Valamar implemented the Pause, Restart Program, with the aim of stabilizing the company’s operations, protecting its employees and ensuring modified products and services that will additionally increase guest safety and service quality. This program enabled protection from lay-offs and continued pay-outs to all the employees “pausing” from their work. As a result, in the period from March to June 2020, over 90% of Valamar’s employees were on hold, waiting for work, and the resulting cost was borne by shareholders and with the help of the government’s support for employees.

Robustness

Robustness was assessed based on strength and effectiveness of the two institutions in adverse conditions caused by COVID-19. Robustness can also be viewed in terms of the ability to build potential for future challenges. In that regard, the Istrian CPH, together with the Ministry of Tourism and Sport, had been developing scenarios that would allow them to prepare for contingencies in case of a new wave of the pandemic. For example, they started implementing the Safe Stay in Croatia, a national project for security protocols in tourism and hospitality. Also, in the event that Istria fails to keep “the green label”, CPH and other institutions involved in tourism emphasized the importance of developing a Plan B, which was to enable the widespread use of fast and cheap antigen tests for both tourists and locals (Croatian National Tourist Board 2020). As a result, the robustness of CPH can be awarded the maximum rating (5).

The revenues of Valamar Riviera in 2020 amounted to 31% of the 2019 revenues. Credit liabilities were deferred and with additional loans the company managed to secure financial stability. Valamar needed to ensure sufficient liquidity during the crisis and make sure the company continued its growth path in 2021. The dividend payment proposal for 2019 was revoked, Supervisory Board members reduced their fees and the management decreased their salaries by up to 30%. In addition, Valamar temporarily suspended some of their projects of hotels construction and reconstruction. Therefore, the operating cost-savings plans, investment decrease, payment deferrals (e.g., concessions for the use of land/cost for tourism purposes)
and agreements with banks and other investors have secured liquidity and reduced operating expenses by 62% compared to 2019. Consequently, despite a sharp decline in revenues, the company adapted to the new situation caused by the pandemic very well, and immediately after the travel ban was lifted, it continued with its operations under the new circumstances. Therefore, the company’s robustness is rated with grade 3. The company’s CEO said that “this crisis was the test of their business model, company values, resilience and capabilities to respond to crisis” (Crnjak 2020), which reflects a truly proactive approach to crisis-management.

Effects of resilience indicators on society

The societal impact of resilience will be assessed based on the aforementioned resilience indicators: preparedness, agility and robustness. The case study shows how stakeholder cooperation between public and private organizations can serve as a key element of societal resilience in cases of unexpected crises. Although neither Croatia’s tourist sector in general nor the two analyzed institutions specifically were prepared for the crisis caused by the pandemic, when the crisis started unfolding both stakeholders undertook activities that prevented the negative impact on the society. Comparative results indicate that these efforts were relatively successful as Croatia had the lowest percentages of tourism decline due to COVID-19 when compared to other Mediterranean destinations (e.g., Spain, Greece or Turkey) (UNWTO 2021).

Early on in the pandemic the Croatian government introduced robust relief measures for economic activity, especially in the hospitality sector. Most companies, including Valamar, used these measures for the most part of the first pandemic wave. Although these subsidies were the same for all counties, some regions proved to be significantly better at reacting to the crisis. Istria was one such example, often cited as the most successful Croatian region. In October 2020, Istria was the only “green” region on Europe’s COVID-19 map (CroatiaWeek 2020). In this article we argue that the key difference in offsetting the effects of the pandemic from the perspective of economic activity in Istria was good cooperation between companies such as Valamar and the regional CPH. The latter was more proactive than other regional CPHs, acting as a true leader in the fight against COVID-19 and engaging in active and persuasive communication with the national government, thus assuring a relatively stable situation for tourist activity and, consequently, Valamar’s operations.

Although Istria’s CPH is an ad-hoc institution with clearly defined responsibilities, the case of Istria County during the pandemic shows how important a role public institutions can play not only in protecting health, but also in safeguarding the economic activity and social dynamics. Istria’s CPH is a particularly good example of an agile regional task force, able to foresee and manage the crisis. It diminished specific risks posed by COVID-19, both in terms of curbing the spread of the disease and allowing for a proper trade-off with economic development, primarily tourism, as the main economic activity in the region. One example of such activities took place early on in the 2020 tourist season. At that time the entire of Croatia was at risk of being labelled a “red list” country, i.e., epidemiologically unsafe. Considering a strong dependence on tourist arrivals from neighboring countries, Istria’s
CPH urged the Croatian government to immediately send a request to Italian and Slovenian governments to treat guests returning from Croatia selectively, that is, in accordance with the real epidemiological situation in different parts of Croatia, since the pandemic outbreaks were much worse in other regions, especially Dalmatia. These countries and their institutions acknowledged that Istria was keeping the health situation under control, just as it had been doing in the previous months. As a consequence, it had great results in tourism and boasted the biggest share of Croatia’s overall turnover in tourism, all due to the great effort invested and responsibility assumed by all Istrians (HINA 2020a).

Apart from their agility in communication with the national headquarters, Istria’s CPH also published several recommendations and prevention measures related to the overall activity in Istria, as well as special measures related to particular stakeholders in tourism (e.g., catering facilities, hotels and private accommodation, campsites and marinas, travel agencies) (Guillot 2020). In addition to very specific outputs, such proactive involvement with key stakeholders created the opportunities for better communication and cooperation, which is crucial in successfully tackling any crisis.

The government’s relief funds and a good epidemiological situation in Istria, as a result of the activities undertaken by regional CPH, allowed Valamar Riviera to continue with its operations even in the extreme situation caused by COVID-19. Due to the support from the government and a number of agile internal restructuring measures, the company managed the crisis successfully. In a short period of time, the company secured financial stability and modified its products to be aligned with the new, pandemic environment. In addition, Valamar Riviera did not lay off its employees during the crisis, despite the fact that the hotels were closed. Additionally, it supported local communities in their fight against the coronavirus. Even though the company itself was hit by the pandemic much stronger than companies in other industries, it still tried to keep up with its socially responsible behavior for which it had previously been rewarded (IDOP 2020).

Conclusions

This article examined the extent to which tourism in Croatia, especially in Istria as its most tourist of regions, was resilient in the face of the COVID-19 pandemic. Since crises occasionally do occur in tourism (e.g., as a result of terrorism, natural disasters, political instability etc., e.g., see Cró and Martins 2017), it is possible that some internal crisis management plans existed in hospitality companies or local governments. However, the analysis of the tourism sector in general showed that it was not prepared for a crisis of this scale.

The analyzed institutions have shown a high level of agility and resilience in their crisis management. However, the COVID-19 pandemic outlined once again the deep societal interdependence between the public and the private sector, and the need to put forward a new multi-stakeholder form of cooperation in order to increase robustness and resilience. The latter produced an impact in society, which complemented the direct effects of resilience indicators. Good cooperation between an agile public
sector, represented by Istria’s CHP, and the largest company in the tourist industry enabled a fast recovery from the first wave of COVID-19 and, furthermore, prevented spill-overs to other sectors. Although tourist arrivals in 2020 were only at approximately 36% compared to 2019, the sector in general was saved from company failures that could negatively affect this and other related sectors, with the overall GDP decline of 8% in 2020.

This crisis has shown how exposed and vulnerable the tourism industry could be, and moreover, how dangerous it could be to base the entire national economy on income generated by tourist activity. In this crisis the neglected dimension of tourism-health security was of key interest (Kranjčević 2020), providing a chance to rethink not only tourism, but the Croatian economy as a whole.

Two elements of crisis management in the response to the COVID-19 outbreak in tourism have been detected as paramount: stabilization of the situation and communication of how the crisis unfolds to the public. In the tourism industry, due to the scale of this crisis, it would not be possible to introduce a new equilibrium into business relations without the outside help in the form of government subsidies. The Croatian government recognized that its reaction was necessary to stabilize the situation and thus provided fiscal relief, several liquidity measures and job-keeping measures for those sectors that found themselves in more difficult circumstances (primarily tourism, hospitality and transport) (Guillot 2020). Furthermore, it supported the work of regional civil protection headquarters and provided them with authority to act within their regions. All this enabled private companies like Valamar to continue with their operations. This case shows that the synergy of macro and micro level activities consequently produces most favorable results in times of crisis.

Given the limited research in this area, further research may focus on additional explanations for these levels of the three indicators of resilience and reaction from other private companies in tourism. Furthermore, these results could be compared with other industries in Croatia with the view of conducting comparative analysis.

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