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Development Impact of FDI in Hotel: Case Study of Terme Tuhelj in Croatia

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ABSTRACT

The main objective of this study is to assess the development impact of foreign direct investment (FDI) in tourism in the case of foreign-owned hotel on the micro-location of Croatia. As an example of this study, the FDI in the Terme Tuhelj, a hotel complex which is located in the area of small local government in the continental Croatia, is chosen. The research methodology is based on questionnaires, unstructured interviews and processing of secondary data sources. The research results show that Terme Tuhelj became the engine of growth of Tuhelj municipality and Krapina-Zagorje County. The Terme Tuhelj example showed how a foreign-owned hotel, in less developed country, has a significant development impact on the local economy.

Keywords: FDI; Tourism; Development Impact; Terme Tuhelj

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Introduction

Tourism is a very complex social and economic phenomenon. It is the leading service industry, which has become a key sector in a growing number of economic strategies of developing countries, less developed countries, and therefore Croatia. This was due to its large contribution to foreign exchange earnings, national income and opportunities for the development of new jobs that have a significant economic impact on the latter countries (Salleh, Othman & Sarmidi, 2011). The factors necessary for its development are capital, infrastructure, knowledge and access to global marketing and distribution chains. That is where the importance of FDI comes considering the mentioned items the most effective means for its reinforcement. FDI is one of the ways in which developing countries and less developed countries can develop their tourism.

Tourism is a key driver of the Croatian economy's development and accounts for almost 15% of Croatian GDP. Upgrading and expansion of the infrastructure that supports the tourism industry is crucial for the further development of Croatian tourism. Considering the importance given to FDI in tourism and expectations of the Croatian government from foreign capital entering in the tourism sector, the purpose of this study was to assess the development effects of FDI in tourism on the example of foreign-owned hotel on the micro-location of the Republic of Croatia, i.e. on the regional level. The research of development impact of FDI in tourism on the micro-location is carried out following the example of the International Finance Corporation (IFC) and Overseas Development Institute (ODI) (IFC, 2010; ODI, 2012). It is about real estate that used to be locally owned and that has by acquisition of a number of unfavourable circumstances fallen into bankruptcy and became a commercially and substantially neglected. They had operated under the name Tuheljske toplice and were owned by the company Mihanović Inc. The Terme Tuhelj Ltd. is active since 2003 and established by the Slovenian company Terme Olimia. Hotel complex was chosen as an example because, although hotels and restaurants do not make the total tourism industry, it seems that the money invested in these sectors makes the majority of the FDI in tourism (Endo, 2006).

Choosing a foreign owned hotel located in a small municipality where there is no presence of other hotel it is possible to accurately identify the economic effects and draw the more reliable research conclusions. The aim is to quantitatively and qualitatively assess the direct, indirect and induced development impact of foreign investors in the Croatian tourism on the example of Terme Tuhelj, a hotel complex with 4 stars.

Discussion on study results is organized as follows: 1) research review, 2) methodology and study location, 3) study results and conclusion and implications.

1. Research Review

Despite a sustained increase in the volume of tourist travel (increase in the number of tourists, the number of growth rates and growth in tourism revenues) and the FDI growth in the past 20 years, the area referred to the FDI in tourism remains essentially unexplored (Sinclar & Stabler, 1991; Contractor & Kundu, 1999; Zhang, 1999; WTO, 2004; Dwyer, Forsyth & Dwyer, 2010). However, interest in the subject topic is constantly growing (Dunning, Kundu, 1982; Endo, K., 2006; Stanford & Dong, 2000; Craigwell & Moore, 2007). Recent studies regarding the impact of FDI in tourism are based on testing of so called FDI-led tourism growth hypothesis (Salleh et al, 2011, 251). The test results of FDI-led growth hypothesis tourism are all very diverse (Tang et al, 2007; Moore and Craigwell, 2008; Bezić et al, 2010; Zhang et al, 2011; Salleh et al, 2011; Karticioglu, 2011; Selvanathan et al, 2012; Othman et al, 2012; Samini et al, 2013; Fereidouni, H.G. & Al-mulali, U., 2014).

There are very few specific case studies concerning FDI into hotels. The United Nations Conference on Trade and Development (UNCTAD) has conducted a study that examined the direct and indirect effects, spillovers, and microeconomic implications of FDI in tourism (UNCTAD, 2007), the most extensive such study so far. The survey was conducted on global foreign hotels in Bhutan, the Dominican Republic, Kenya, Mauritius, Morocco, Sri Lanka, Tanzania and Tunisia. The research concluded that FDI and transnational corporations have the potential to significantly contribute to the growth of tourism in developing countries, but they cannot function as a panacea and can only be effective as a part of an adequate overall policy framework. The IFC has explored the impact of two hotel investments in the tourism sector (IFC, 2010). They have analysed the Hyatt Regency hotel in Kyiv and the Monasterio hotel in Machu Pichu, both of which have a significant impact on development of their respective local environments. The hotels have diversified their selection of accommodation facilities, which affected their business reputation, and set up high standards of social corporate criminal liability through donations of goods and services to the local community. Another study closely related to the authors's research is the case study of IFC investments in the Kigali Serena Hotel, Rwanda, conducted by the ODI (ODI, 2012). The results showed that the hotel has a significant impact on the development of local economy. Direct contribution of the hotel can be observed through employee salaries, purchase of food and beverage, concession fees and maintenance. Indirect contributions derive from tourist consumption outside the hotel and induced from spending of employee wages.

Given the above, it is evident that there is scope for further research of the effects of FDI in tourism. The authors' research will prove useful to assessing the development effects of FDI in the case of foreign-owned hotel on the Croatian micro-location.

2. Research Methodology and Study Location

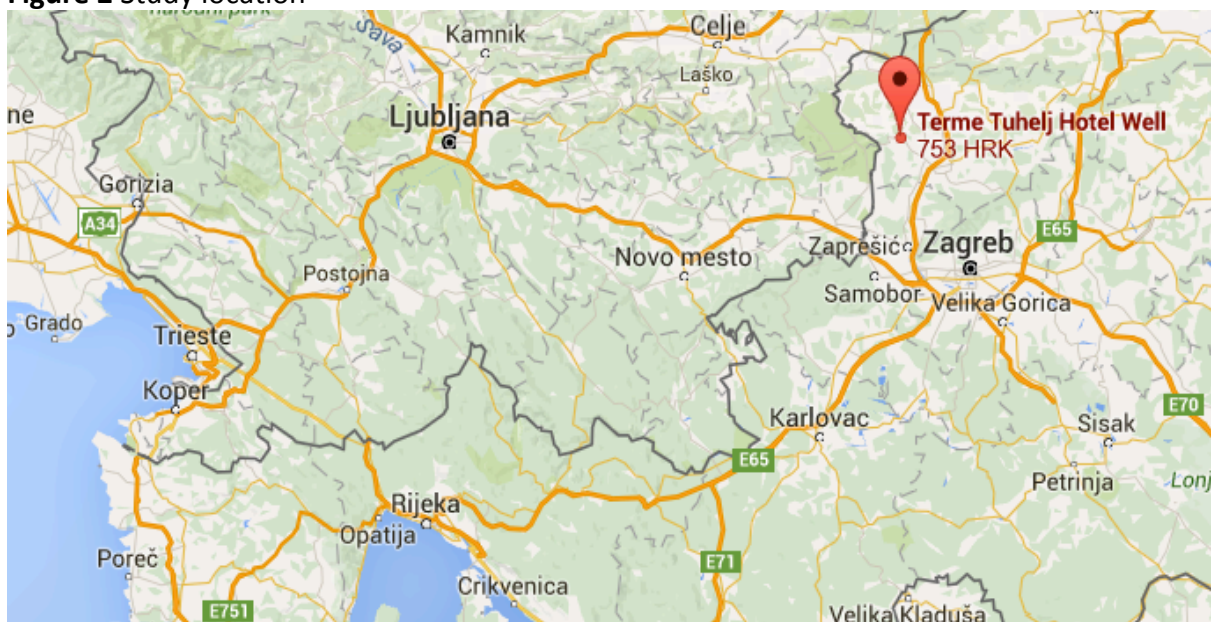
2.1 Methodology and data collection

The main research methods of this study are structured questionnaires, unstructured interviews and processing of secondary data sources. Structured questionnaires yielded hotel staff and guests' data, service provider and environment data was collected using unstructured interviews, and various secondary sources were used to collect data on the development of competitive and complementary services as well as immediate environment. The surveys were conducted during September 2013. Questionnaires were completed by 50 employees and 185 hotel guests, who, respectively, make up 38% of the total workforce and 4.2% of the total amount of guests during the period. Unstructured interviews were conducted in July 2013, with the assistance of the chief financial officer of Terme Tuhelj and the executive of the Tuhelj Tourist Board (TTB). The secondary data sources include internal Terme Tuhelj data and data of TTB.

2.2 Background of study location and the Terme Tuhelj location

The study is aimed at the Terme Tuhelj, Tuhelj Municipality, located in the western part of the Krapina-Zagorje County. Situated in the Croatian north-west, its proximity to the capital city Zagreb (40 km) is a great advantage because of the capital's strong connection to the central part of Croatia. Figure 2 shows the the location of Terme Tuhelj.

Figure 2 Study location



Source: <https://www.google.hr/maps>

According to the official data from the last Census (2011), the Tuhelj Municipality has 2,104 inhabitants. The population density is 88 inhabitants per km². It is a relatively densely populated area since the average population density in Croatia is 78 inhabitants per km².

The Tuhelj Municipality bases its development on tourism and Terme Tuhelj is expected to have significant development impacts because it is the only hotel in the municipality. Terme Tuhelj is constantly influencing on the development of Tuhelj Municipality as a tourist destination with its ambitious vision of the most desirable vacation destinations in the continental part of Croatia.

Based on existing research related to FDI into hotels in the developing and less developed countries (UNCTAD 2007, IFC 2010, ODI 2012), the authors expect the effects of FDI into hotel complex Terme Tuhelj to be positive.

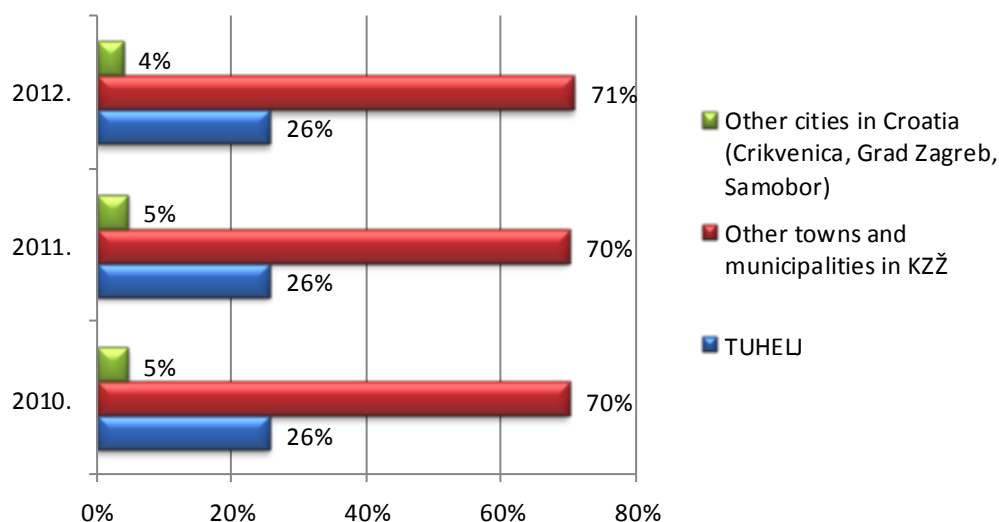
3. Study Results

Below is a detailed overview of direct, indirect and induced impacts of Terme Tuhelj in the Tuhelj Municipality. Research results have been obtained from subject groups proposed by the research model. The effects on the immediate environment, the hotel staff, hotel guests, suppliers and the development of competitive and complementary service are discussed as follows.

3.1 The immediate environment

The first step was to discuss the origins of Terme Tuhelj employees to reach a conclusion on how foreign hotels contribute to the employment of the local population and thusly the development of the inner environment. The following chart illustrates the origin of Terme Tuhelj employees for the past three years.

Figure 3 Place of residence of Terme Tuhelj employees from 2010 - 2012



By observing the figure, it is possible to conclude that the structure of Terme Tuhelj employees in 2012 was the following: 26% of employees were residents of Tuhelj, 71% of employees were residents of the Krapina-Zagorje County, and only 4% of employees came from other Croatian cities. It is also important to emphasize that the entire staff is of Croatian origin despite the foreign ownership structure. Observing the gender structure of the employees for the year 2012, it is apparent that women account for 65% and men account for 35% of employees of Terme Tuhelj.

The direct contribution of this foreign investor can be seen in the detailed view of fiscal and parafiscal taxes with which Terme Tuhelj bring money into the local, county and state budgets. The following table shows a detailed overview of fiscal and parafiscal taxes.

Table 1 Contributions of Terme Tuhelj to local, county and state budgets via fiscal and parafiscal taxes in 2012, in euros

REAL PAYMENTS TO STATE INSTITUTIONS:	
Tourist Board	52525.87
State Budget	978935.93
County Budget	8609.27
Municipality Budget	226443.27

From the presented table, a significant financial contribution from Terme Tuhelj to both state and municipality budgets is obvious.

As far as other contributions to the immediate environment are concerned, the most significant contributions by Terme Tuhelj include sponsoring the Zabok basketball club and the Olimp swimming club, donating to Caritas and the local fire department and providing free bath sessions for local schools. In addition, Terme Tuhelj, in cooperation with the local, county and state Tourist Boards, organise or co-finance various tourist programmes. It is the opinion of the head of Tuhelj Municipality that the municipality owes its thanks to people who invested into Terme Tuhelj, above all because these investments came in difficult financial times.

It also seems important to point out the problems which this foreign investor encounters. Administration inefficiency and overwhelming bureaucracy are often considered the basic obstacles to foreign investment into Croatia, and this case is no exception. The Tuhelj Municipality has been making efforts to build a main sewer line that would span from the wastewater treatment plant in Terme Tuhelj to the centre of Tuhelj. In cooperation with Hrvatske vode, several contracts for devising a concept design to obtain location permits of both main and executive projects were signed, but the contract was unilaterally cancelled four times.

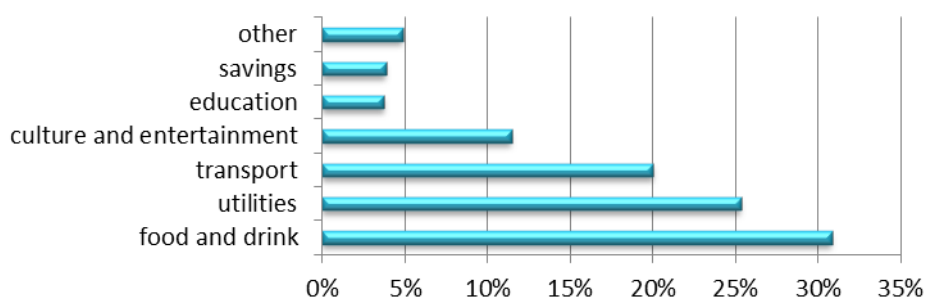
3.2 Hotel staff

The hotel staffs are an important link between the hotel activity and the local economy. However, that connection can be severely affected by four main factors: the

percentage of 'expatriate' staff among employees and the positions they occupy, how the staff spend their wages, wage distribution, and the quality of additional education programmes available to local employees. It has already been pointed out that all employees of Terme Tuhelj are citizens of the Republic of Croatia and the management functions are not taken over by foreign investors, which is most often cited as the biggest disadvantage of FDI into hotels.

In order to assess the induced impacts of investment, further salary spending was investigated through the employee survey method. From a total of 133 employees in 2012, 50 of them completed the questionnaires, out of which 30 were valid. Figure 4 displays how hotel employees spend their wages.

Figure 4 Spending of employee wages (total average monthly salary of 535.98 euros)



Employee questionnaires reveal that employees spend 56% of their wages on food, drink and utilities and an additional 20% on transport. The remaining 24% of the wage is distributed as follows; 11% is spent on culture and entertainment, 4% on education and savings, and the remaining 5% accounts for other expenses.

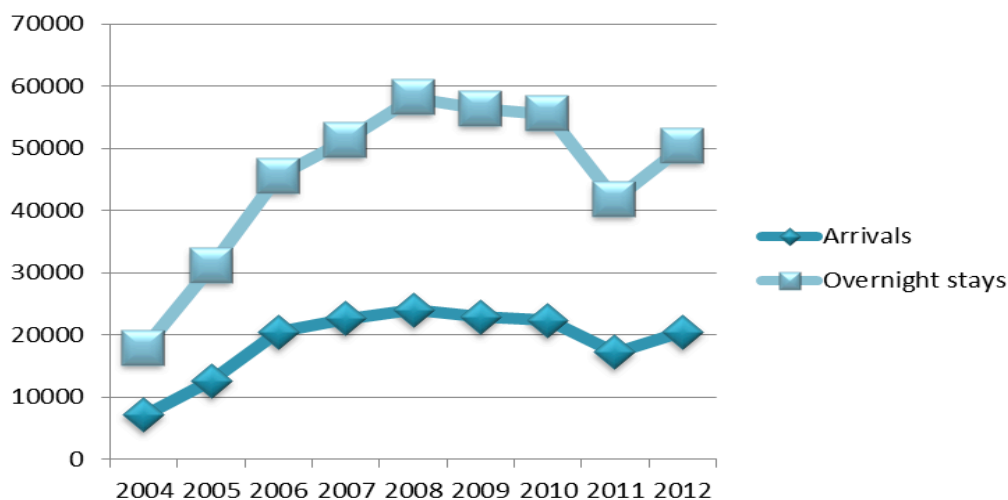
Employees indicated several positive employee benefits provided by their employer, such as additional education programmes including foreign languages and other classes, job security and job progression.

Observing the year 2012, 75% of employees have secondary school education, 11% are unskilled workers, 7% are skilled workers, 6% of employees have a university degree while 1% are semi-skilled workers. Considering the structure of employees, there is also significant importance in the wage distribution in Terme Tuhelj. Wages ranged from 344,4 euros to 2251,7 euros, depending on the workplace position.

3.3 Development of competitive and complementary services

Terme Tuhelj has influenced tourism development in the Tuhelj Municipality, thereby also affecting the development of competitive and complementary tourist offers. The boom of tourism in the Tuhelj Municipality is shown in the following figure.

Figure 5 Number of visits and overnight stays from 2004 to 2012



The figure shows the indispensable role that Terme Tuhelj played in the development of tourism in the Tuhelj municipality in the last 10 years. The first year, just after the ownership change, Terme Tuhelj recorded 7,105 visits and 17,854 overnight stays. By 2012, these numbers had more than doubled, amounting to 20,453 visits and 50,258 overnight stays. The highest number of visits and overnight stays was recorded in 2008. By 2007, Terme Tuhelj was without competition in terms of tourist content in the Tuhelj Municipality. Although it can be argued that the development of competitive tourism began in 2007, significant changes are detectable only from 2011 onward, which are shown in the following table.

Table 2 Structure of overnight stays by type of accommodation facilities in the Tuhelj municipality from 2007 to 2012

	2007.	2008.	2009.	2010.	2011.	2012.
Terme Tuhelj	99,9%	99,9%	99,9%	99,8%	80,6%	92,2%
Rooms for rent	0,1%	0,1%		0,03%	0,3%	1,9%
Pansion			0,1%			0,0%
Apartment					9,5%	0,4%
Lodging						0,0%
Holiday house					0,1%	0,3%
Apartments						0,7%
Camps				0,2%	9,5%	4,5%

Terme Tuhelj has had a theoretical 100% share in the structure of overnight stays in the Tuhelj Municipality until 2011, when the share dropped to 80.6%. By opening the Well hotel in 2012, the share in the overnight stays structure rose to 92.2%. This indicates how Terme Tuhelj prompted the development of competitive tourism in the Tuhelj Municipality.

Investments into Terme Tuhelj have encouraged the opening of two rooms for night, one apartment and two holiday houses. The competitive tourist offers by Terme Tuhelj are shown in the following table.

Table 3 The competitive tourist offers by Terme Tuhelj

Name	Star count	Accommodation capacities
'Night&Day' Rooms	3*	6 double rooms
Sofia Rooms	3*	3 double rooms
Majer Apartments	3*	2 double apartments + 2 studio apartment
Vila Spa Magic Holiday House	4*	3 double rooms
Dajmir household Holiday House	5*	1 double apartments + 1 single apartment

Terme Tuhelj has also affected the complementary tourist offers. At the initiative of Terme Tuhelj d.o.o a Croatia-wide project to promote continental tourism was initiated. The idea of the project was to promote the tourist offers to guests visiting Croatia so that those guests would return to Croatia in the same year to experience continental tourism.

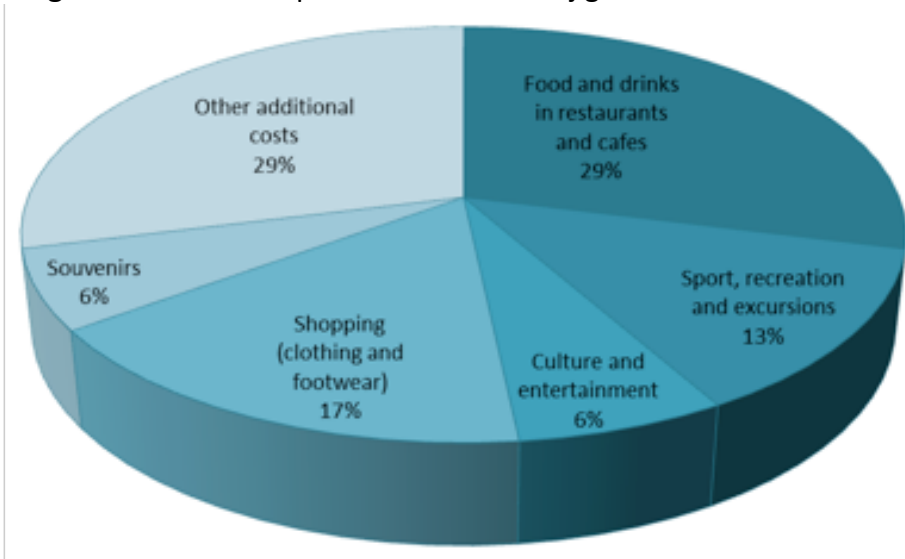
Terme Tuhelj is the driving engine in the Tuhelj Municipality economy, which encouraged the increase in the quality of living within the municipality for both the local populace and the visiting guests. An infirmary containing a doctor's surgery, a dental clinic and a family chemist was built. All of the above contributes to the development of accompanying activities such as healthy food production, entrepreneurship, and all other activities that benefit the citizens of the Tuhelj Municipality and tourism as the base of the municipality's economy.

3.4 Hotel guests

By analyzing the structure of nights, in the total number of nights in 2012, the tourists from Europe make up 97.7% of all overnight stays. The largest number of overnight stays had Croats with 60.1%, followed by Slovenians with 17.4%.

In order to assess the indirect effects of investments, a survey method explored guests' consumption outside the hotel. Of the total of 185 surveyed guests, there are 125 valid questionnaires. The figure below displays the structure of consumption outside the hotel.

Figure 6 The consumption of Terme Tuhelj guests outside the hotel



The processing of the questionnaires showed that the average daily consumption of guests outside the hotel is approximately 44.08 euros. The guests on average spend 12.8 euros per day on food and drinks in restaurants and cafes, 7.32 euros on shopping (clothing and footwear), 5.68 euros on sport, recreation and excursions, 2.88 euros on culture and entertainment, 2.74 euros on souvenirs and 12.78 euros on other additional costs.

3.5 The suppliers

When analyzing the economic impacts of a hotel and its surroundings, an important issue is the cooperation with local suppliers. In the first investment cycle in which approximately 10 million euros are invested, it is estimated that about 80% of the amount is spent in Croatia, and the remaining 20% in Slovenia and other foreign countries. In the second investment cycle, in which 12 million euros are invested, about 70% of the amount is spent in Croatia, and the remaining 30% in Slovenia and other foreign countries. In the first investment cycle a foreign investor has hired local architects, while during the second investment cycle the Slovenian architects have been hired. As for the equipping of the hotel, the „Regeneracija“ company from Zabok should be noted as domestic supplier that manufactured the wall decorations and the „Kvadra“ company from Sv. Križ Začretje of which the armchairs were acquired. The other equipment was mainly purchased from abroad.

In its current business, Terme Tuhelj purchase the wine from domestic suppliers (they are connected with several local winemakers) and the total supply of wine that Terme Tuhelj offer is exclusively of Croatian origin. They also collaborate with the Zagorski puran cooperative and several other family farms. The origin of the other equipment,

food and beverages which Terme uses in its business would require a detailed examination of all the suppliers with whom they work which, given the high costs, exceeds the scope of this study.

Conclusion and Study Implications

The Terme Tuhelj example shows how a foreign-owned hotel in less developed country has a significant development impact on the local economy which is in line with the previous research (IFC, 2010; ODI, 2012).

In contrast to the lack of FDI in Terme Tuhelj, which led to the loss of the national ownership, there are plenty of positive effects arising as a result of the new owner. The Tuhelj Municipality was being developed in the light of the financial crisis. Terme Tuhelj launched the development of tourism, the development of competitive and complementary activities, the existing jobs are preserved and new jobs are created. In addition to the direct effects of this investment, there are also indirect effects in the form of guests' spending outside the hotel and the consequent effects in the form of consumption of hotel employees salaries.

Given that the entrance of internationally branded hotel chains, that through participation in promotional programs and global campaigns indirectly promote destinations (countries) in which they are located, consequently implies an increased interest in FDI in other sectors of the economy, a case study of FDI in the hotel sector is a good indicator of the micro impact of FDI in tourism. Choosing a foreign owned hotel located in a small municipality where there is no presence of other hotel it is possible to accurately identify the economic effects and draw the more reliable research conclusions. The deficiency of this study is the inability to do a detailed analysis of suppliers due to high costs.

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