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Employment in the Hotel Industries of Croatia and Montenegro: Current State and Outlook

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ABSTRACT

The subject of this article is an analysis of current state and employment perspectives in the hotel industry of Croatia and Montenegro. This paper aims to investigate the role of the hotel industry in direct and indirect employment. To correctly assess the importance of the hotel industry in employment, the paper analyses the factors upon which hotel industry employment is dependent and develops an econometric model to estimate the number of hotel industry employees and the capacity of the hotel industry to create the total number of jobs. The starting point of this paper is that it is necessary to maintain high level of employment as well as high level of provided services and management for the realization of tourist advantages possessed by Croatia and Montenegro. The results of research are based on data from secondary sources. Several scientific methods, such as descriptive statistics, the trends method, and correlation and regression analysis, were applied to accomplish the study's objective. The paper's main finding points to the future growth of employment in the hotel industries of Croatia and Montenegro and to the ever-greater contribution of the hotel industry to total employment. The hypothesis is confirmed in the paper.

INTRODUCTION

Employment refers to the number of jobs in an economy, economic sector, or individual economic branch during the period of one year (Stricker and Baruffini, 2020). Employment in the hotel industry shows the structuring of the national economy and the level of recruitment and distribution of human

resources. It is, however, very difficult or almost impossible to calculate the exact number of employees in the hotel industry due to the industry's high level of fragmentation (Galacic and Laskarin, 2016). The effect that the hotel industry has on employment surpasses the boundaries of the industry itself (Radjenovic et al., 2020; Skare and Kukurin, 2020; Kaliappen et al., 2019). To correctly assess the importance and role of the hotel industry in new job creation, the hotel industry's indirect effects should also be taken into consideration. Direct employment in the hotel industry refers to jobs in hospitality, tourism agencies, transport and the retail business, in which employees come into direct contact with visitors. According to S. Kot and K. Kozicka (2018) Indirect employment in the hotel industry refers to jobs in all other economic branches and industries, such as the manufacturing industry, power industry, water supply, construction industry, IT support services, financial operations, and public administration, the activities of which are focused to lesser or greater extent on tourism development and tourism-generated income.

Given the importance that the hotel industry has for the economies of Croatia and Montenegro and the comparative advantages it possesses relative to the international environment, it was deemed pertinent to develop an econometric model based on which it would be possible to realistically identify employment trends in the hotel industry as well as the capacity of the hotel industry to create new jobs in the future period. A multiple regression model was developed for the science-based assessment of the number of employees in the hotel industry (NE) and the capacity of the hotel industry to create new jobs. The number of tourist arrivals, the number of overnights, the average number of overnights per arrival, and the number of beds were tested as the independent variables of the potential model for assessing the number of employees in tourism.

1. LITERATURE REVIEW

The hotel industry is a business sector, the main focus of which is providing accommodation to persons without permanent residence in a given area, that is, travelers. The hotel industry provides services that are realized in the tourism market through the sales of accommodation services and other services, as well as special goods and services, to tourists and residents, thus generating tourist consumption (Mura and Kljucnikov, 2018; Kostynets et al., 2020). The hotel industry is a service activity that involves hospitality and catering, retail trade, transport services and destinations (Cerovic et al., 2005). The hotel industry is a sector that generates high amounts of revenue, boosts the growth and development of the national economy, and represents an important source of employment (Van der Schyff et al., 2019).

Many foreign and domestic authors have researched the role of the hotel industry in creating new jobs and increasing overall employment. In their analysis of the basis of sustainable tourism management, B. Blazevic et al. (2013) highlight the direct and overall contribution of tourism to GDP and employment, and they view labor, that is, human resources in the hotel industry, as a vital indicator of sustainable tourism, based on the number of employees in the HORECA sector, the number of permanently employed workers, the number of seasonally employed workers, and the educational structure of the employees. A. Obadic and L. Pehar (2016) argue that seasonality is a major constraint to employment in the hotel industry, and they underscore the importance of the hotel industry in creating new jobs, in particular in post-crisis periods.

M. Resetar and A. Ceh Casni (2014) stress the importance that employment in the tourist accommodation sector has for the quality of life of residents and in preserving the demographic structure in regions where the hotel industry is the main branch of activity. I. Pavlic et al. (2014) and V. Draskovic et al. (2021) investigated the direct and indirect contribution of the hotel industry in increasing employment in Croatia, while C. Beneki et al. (2016) used a linear logarithmic model to study the potential for boosting employment in the hotel industry of Greece. Their empirical findings suggest that the capacities of the Greek hotel industry are a fundamental factor in increasing employment in this sector of the economy. It is also confirmed by Szymanik (2020). The research of Baum et al. (2016) focuses on sustainability and the work force in the hotel industry, with special emphasis on the contribution of the hotel industry to achieving full and productive employment and decent work, one of the 17 sustainable development goals of the UN's 2030 Agenda. In their study of the constraints in attracting new workers to the hotel

industry, S. McGinley et al. (2017) point out that high employee turnover rates are a particular problem in the hotel industry. In the U.S.A., the employee turnover rate in the hotel industry rose from 58.1% to 67.6% in 2014. Particularly interesting is the fact that the American Hotel & Lodging Association (AHLA) is lobbying for measures to facilitate the entry of migrants into the U.S.A., as it is estimated that in the next ten years it will be necessary to employ 1.3 million more people in the hotel and lodging industry. E. Darabos and E. Konyves (2015) examined the vital role of the hotel industry in the long term in stabilizing the labor market and increasing total employment at both the global level and EU Member State level.

In the past five years, the tourism and travel sector has created one in four new jobs in the global economy, thus becoming the best ally of governments in addressing the issue of unemployment. In 2019, about 330 million people – or one in ten people in total world employment– were employed, either directly or indirectly, in this sector. The tourism and travel sector accounts for 10.3% of the world’s GDP. For ten consecutive years since 2011, the tourism growth rate has exceeded the annual GDP growth rate. For example, the annual growth rate of tourism in 2019 relative to the previous year was 3.5%, while the GDP growth rate came to only 2.4%. The EU economy grew at a rate of 1.3%, while the travel sector saw a growth rate of 2.4%. Thus, this sector has evolved from being the outcome of economic development to becoming an active driver of economic growth.

2. RESEARCH PROBLEM, DATA AND METHODOLOGY

Eurostat estimates that the EU hotel industry employs more than 13.3 million people or one-fifth (21%) of the people employed in the service sector and 9% of the people employed in the business sector. At the head of the list in absolute indicators, per number of people employed in the hotel industry, are the large European countries: Germany (2.5 mln), Great Britain (2.3 mln), Italy (1.5 mln), Spain (1.4 mln) and France (1.1 mln). Employment in these five countries accounts for about 66% of employment in the EU hotel industry. According to Eurostat, employees in the hotel industry of Montenegro account for 17% of people employed in the national economy. In Croatia, this share is 13% (see Figure 1).

Figure 1 shows that Montenegro belongs to the group of leading European countries as per relative number of employees in the hotel industry. The number of people employed in the hotel industry in Montenegro doubled in 2019, relative to 2010. The percentage of employees in the Croatian hotel industry may not seem very large in comparison with some other European countries. These facts could blur the importance of the hotel industry in the economies of Croatia and Montenegro, as a significant number of people earning income from the hotel industry are not formally and legally employed. A number smaller than the possible number of employees in the hotel industries of Croatia and Montenegro is foremost the result of the lower share of hotels (only 15%) in the structure of accommodation facilities. Namely, hotels are the main generator of employment in the hotel industry. Hotels, as major sources of employment, accounted for about 28% of overnights in Croatia and Montenegro in 2019.

In 1987, the number of employees in the hotel industry of former Yugoslavia amounted to 274,000 or 4.8% of total employment (Cicvaric, 1990, p. 169). In 1989, the Socialist Republic of Croatia had the largest number of people employed in the hotel industry (108,026), accounting for about 40% of the total number of employees in the former country’s hotel industry (Dulcic, 1991, 147). The number of hotel industry employees in the independent Republic of Croatia, however, did not reach that level until the year 2018. Table 1 illustrates the trends in hotel industry employee numbers in Croatia in the period 1967-2019.

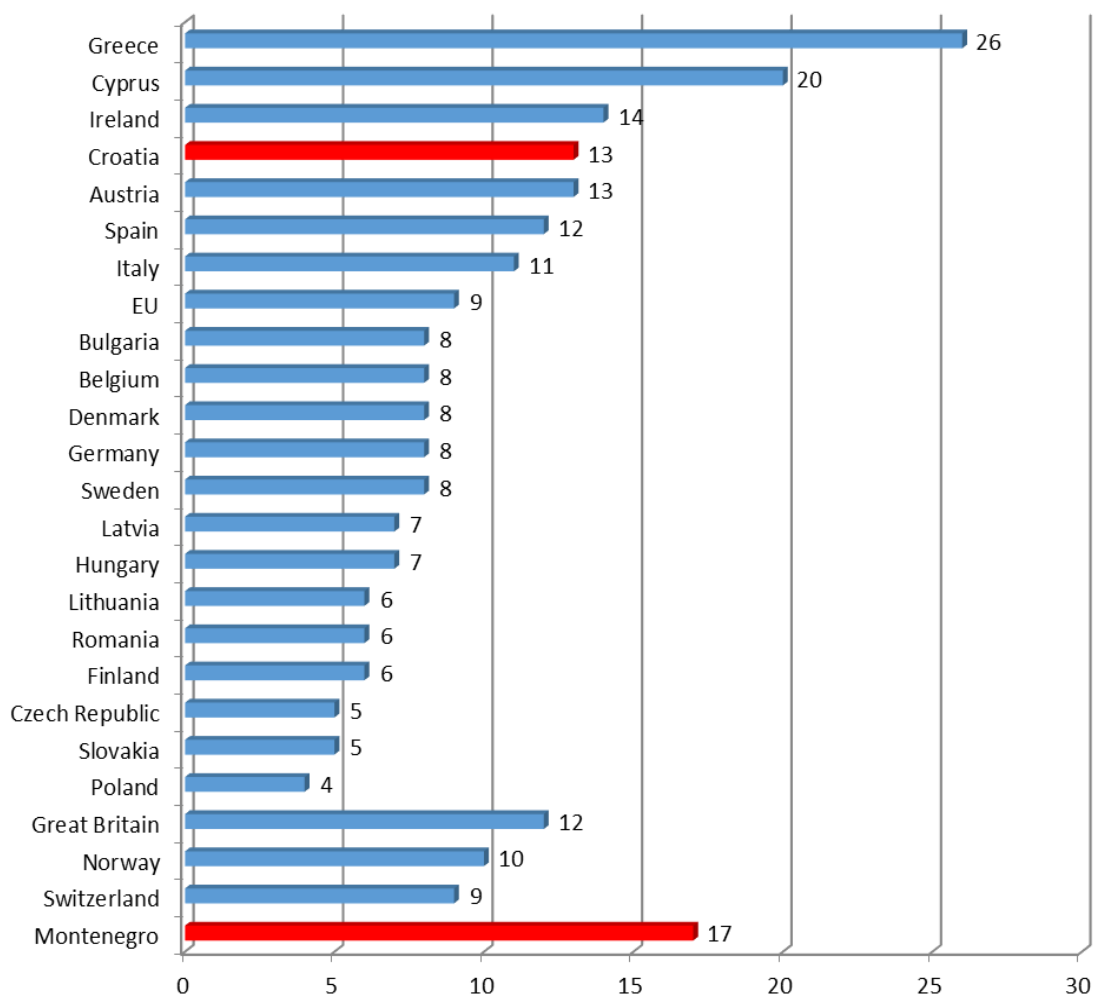


Figure 1. Share of hotel industry employment in overall national employment

Source: Authors prepared according: ec.europa.eu/eurostat

Table 1. Trends in number of employees and basic indicators of the hotel industry in Croatia

Years	Number of person employed	Tourist arrivals (000)	Number of overnights (000)	Average number of evernights per tourist	Number of beds (000)
1967.	38572	3630	20906	5,76	352
1968.	42615	3810	22281	5,85	375
1969.	44041	4650	28082	6,04	415
1970.	47768	4805	28552	5,94	453
1971.	53065	5302	32210	6,08	511
1972.	56234	5426	33327	6,14	534
1973.	62169	6122	39000	6,37	555
1974.	66066	5928	38941	6,57	569
1975.	67930	6454	42411	6,57	616
1976.	70153	6392	40947	6,41	635
1977.	72292	6994	43111	6,16	632
1978.	74132	7851	49389	6,29	647
1979.	77842	7912	52117	6,59	669
1980.	80071	7930	53600	6,76	692
1981.	81370	8333	56574	6,79	728
1982.	83981	8042	54436	6,77	769

1983.	86352	8268	54632	6,61	775
1984.	90687	9146	59465	6,50	800
1985.	97815	10125	67665	6,68	820
1986.	102137	10151	68216	6,72	849
1987.	105107	10847	68160	6,28	886
1988.	106192	10354	67298	6,50	926
1989.	108026	9670	61849	6,40	923
1990.	98586	8497	52523	6,18	860
1991.	66975	2146	10158	4,73	597
1992.	50768	2010	10725	5,34	535
1993.	51174	2363	12908	5,46	570
1994.	53915	3402	19977	5,87	620
1995.	51440	2438	12885	5,29	609
1996.	54824	3899	21455	5,50	646
1997.	65000	5206	30314	5,82	683
1998.	65563	5449	31287	5,74	725
1999.	66778	4751	26564	5,59	671
2000.	73771	6620	38406	5,80	710
2001.	73672	7279	42579	5,85	736
2002.	80957	7694	43805	5,69	752
2003.	81175	8189	45635	5,57	786
2004.	83504	8629	46668	5,41	812
2005.	82628	9222	50282	5,45	851
2006.	84327	9660	51797	5,36	864
2007.	90274	10351	54627	5,28	882
2008.	91430	10454	55669	5,33	906
2009.	89038	10270	54988	5,35	909
2010.	89555	10405	56217	5,40	907
2011.	89700	11211	60110	5,36	933
2012.	89300	11599	62507	5,39	878
2013.	94000	12233	64617	5,28	924
2014.	95500	12914	66270	5,13	976
2015.	102300	14175	71437	5,04	1028
2016.	108500	15463	77919	5,04	1132
2017.	104981	17431	86200	4,95	1201
2018.	110755	18667	89652	4,80	1267
2019.	107500	19566	91243	4,66	1319

Source: Authors prepared according to Croatian Bureau of Statistics, Statistical Yearbook, different years

Similar trends are present in the basic indicators of the hotel industry of Montenegro, the only difference being that the recovery of the Montenegrin hotel industry occurred with a time lag of some ten years (Bicker et al., 2011). With the turn of the new millennium, the hotel industry of Montenegro once again experienced a burst of growth, becoming the country with the highest growth rate in the world in 2007 (Mildner, 2009, p. 13). Accordingly, in this scientific discussion, the results of research based on the data for Croatia can serve as a reliable indicator for the future of the Montenegrin hotel industry.

The collected data were analyzed using a number of scientific methods. First, analysis focused on spotting, mathematically formulating, and comparing identified trends in hotel industry employment numbers in Croatia. Then, to obtain detailed insight into hotel industry employment trends in Croatia, the descriptive statistics method was applied to the collected data. Next, the correlations among the number of people employed in the Croatian hotel industry, number of tourist arrivals, number of overnights, average number of overnights per arrival, and number of beds, in the period 1967-2019, were examined. Finally, a regression model was developed, based on which the number of employees in the Croatian hotel industry and the contribution of the hotel industry to the country's total employment by 2030 was estimated.

3. RESEARCH RESULTS AND DISCUSSION

Figure 2 illustrates the trends in hotel industry employment in Croatia in the period 1967-2019.

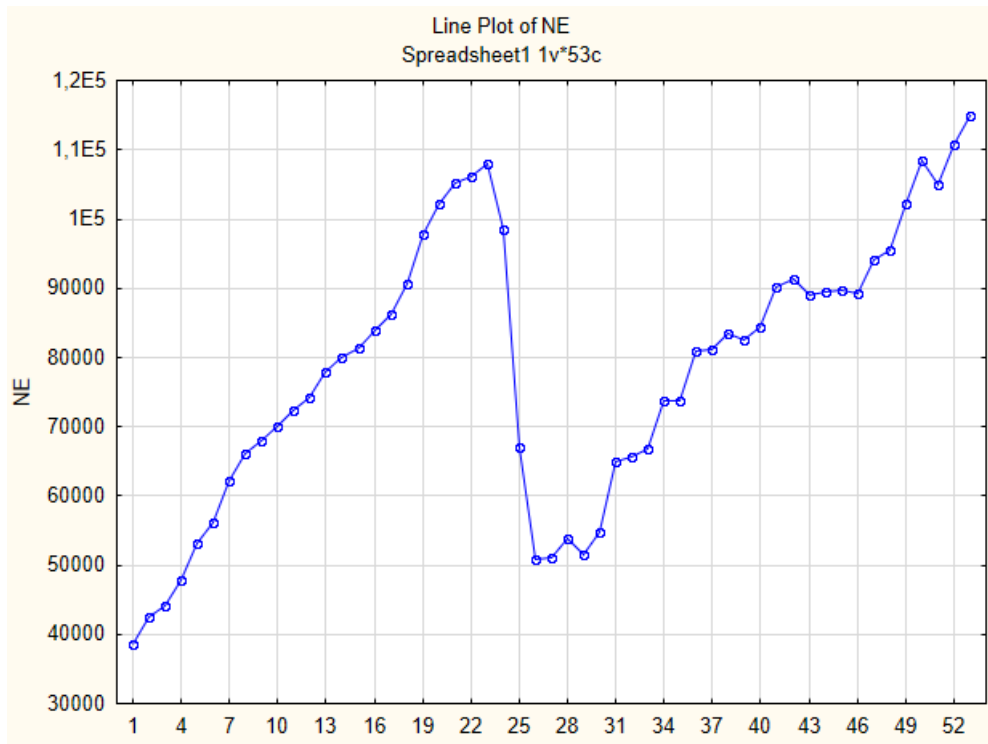


Figure 2. Trends in hotel industry employment in Croatia in the period 1967-2019

Source: Authors prepared according to Croatian Bureau of Statistics, Statistical Yearbook, different years

Employment in the Croatian hotel industry grew almost three-fold (2.98 times) in the period 1967-2019. Three periods in Croatian hotel industry employment trends can be discerned in the graph: 1) hotel industry employment trends in the pre-war period, 2) hotel industry employment trends in the war period, and 3) hotel industry employment trends in the post-war period. The trend curves of hotel industry employment in the pre-war and post-war periods are almost identical (parallel), so it is not surprising that more than 20 years had to pass for employment in the hotel industry in Croatia to reach pre-war levels. In the pre-war period, there is a steady upward trend in employment in the Croatian hotel industry, up to the record-breaking year of 1989. The disruption of political security in former Yugoslavia exposed the fragility of the hotel industry; employment in the Croatian hotel industry first dropped slightly in 1990 but then plummeted over the next two years. In the years that followed, the hotel industry slowly began to recover and employment began to grow, with the exception of 1995 that saw another drop in hotel industry employment. In the post-war period, employment in the Croatian hotel industry has continued to grow, except during the global economic crisis when hotel industry employment stagnated and dropped slightly. The most recent COVID-19 crisis has resulted in the loss of 100.8 mln jobs in the hotel industry worldwide.

The average annual growth rate of employment in the Croatian hotel industry in the observed period 1967-2019 was 2.08%, one whole index point higher than the average growth rate of total employment in the Croatian economy (1.06%). The average annual growth rate of employment in the hotel industry was 4.58% in the period 1967-1989, and 3.27% in the post-war period 1996-2019. In conclusion, em-

ployment in the hotel industry grew continuously, regardless of energy-related, economic, political, financial or other crises.

Hotel industry employment trends in Croatia in the two above-mentioned periods are illustrated in Figure 3 and Figure 4.

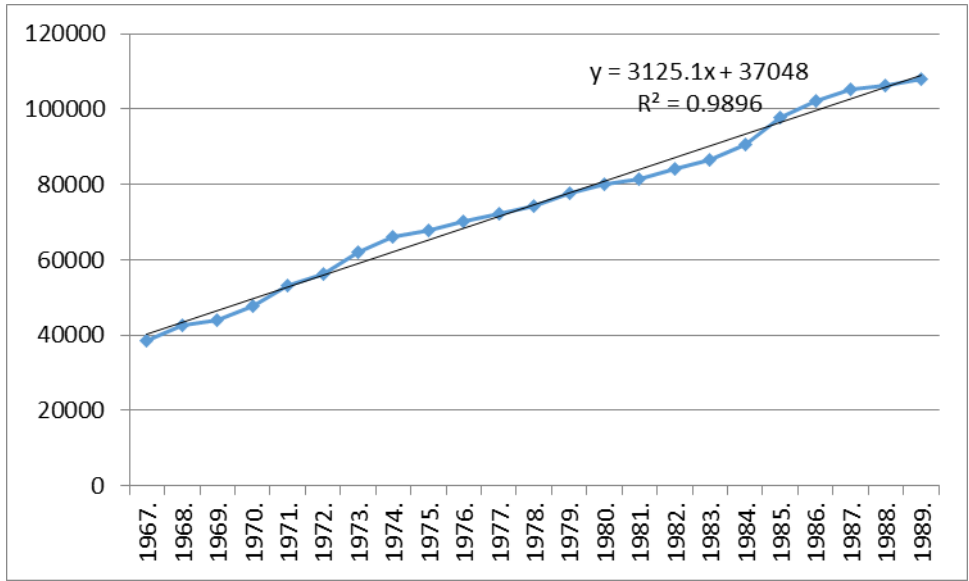


Figure 3. Hotel employment trends in Croatia, 1967-1989

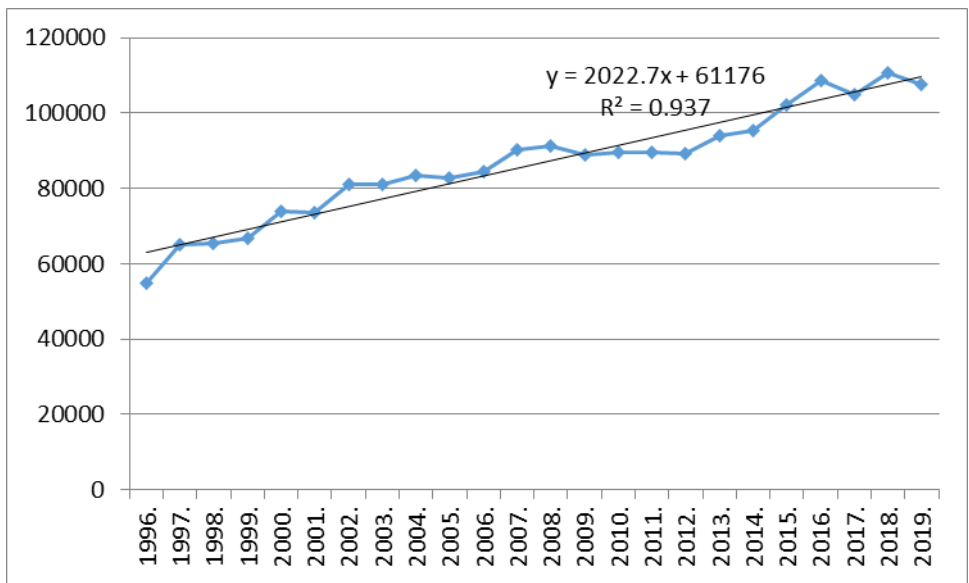


Figure 4. Hotel employment trends in Croatia, 1996-2019

Based on the trend equation in Figure 3, it can be concluded that were it not for the political crisis and war events in the territory of former Yugoslavia, the number of employees in the Croatian hotel industry would have amounted to 202,678 in 2019. The trend equation in Figure 4 indicates that, due to the disruption of the upward trend in employment caused by the political

crisis and war events, hotel industry employment in Croatia cannot be expected to reach that number of employees earlier than 2065, that is, in 46 years.

To fully elucidate employment in the Croatian hotel industry, a brief descriptive statistics analysis was made for the period 1967-2019 (see Table 2).

Table 2. Descriptive statistics of employment (NE) in the Croatian hotel industry, 1967-2019 (in '000)

	<i>NE</i>
MEAN case 1-53	78679
MEDIAN case 1-53	81175
SD case 1-53	19984
VALID_N case 1-53	53
SUM case 1-53	4170007
MIN case 1-53	38572
MAX case 1-53	115000
_25th% case 1-53	65563
_75th% case 1-53	91430

Source: own

The average number of people employed in the hotel industry in the observed period is 78,679 (SD=19,984). The year 1967 saw the lowest number of employees (38,572) in the Croatian hotel industry. Even during the war years (1991-1995), the number of hotel industry employees never dropped below 50,000. The highest number (115,000 employees) was recorded in 2019. The first quartile comprises the years in which average annual employment in the hotel industry was less than 65,563 employees, and the last quartile, the years in which average annual employment in the hotel industry was more than 91,430 employees. In the remaining 50% of years, the average annual employment in the hotel industry ranges from 65,563 to 91,430 employees. The calculated median (M=81,175) indicates that the average number of employees was lower than 81,175 in the first half of the observed period, and higher than 81,175 in the second half. It is evident that employment in tourism is continuously growing and that tourism has a very important role in addressing the issue of unemployment.

Considering the seasonal character of business operations in the hotel industry, along with seasonal employment, this function of tourism is particularly important in countries with high unemployment rates. The importance of the hotel industry in addressing unemployment in Croatia is confirmed by the fact that, at the annual level, the number of unemployed persons in Croatia in August 2020 was higher by 32% or 36,870 people, and amounted to 151,368 people (<https://www.hzz.hr/statistika>). An illustrative example is provided by Montenegro where there were about 41,000 unemployed persons more in July 2020 than in July 2019. On 31 August 2020, the number of unemployed persons in Montenegro had grown to 43,065. Hit the hardest were the service, accommodation and catering sector which lost 12,254 employed persons, the trade sector in which the number of employed persons dropped by 7,785, and the administrative and auxiliary service sector, which lost 6,422 employed persons. The greatest increase in unemployment (<http://www.zzzcg.me>) was recorded in the popular tourist destinations Budva (-35.2%), Herceg Novi and Tivat (-29%). The main reason behind the increase in unemployment was the crisis caused by COVID-19, which dealt a strong blow to the tourism sector that is the dominant sector in the economies of both countries.

The following section of this scientific discussion explores the correlations among the number of employees (NE) in the Croatian hotel industry, the number of tourist arrivals (TA), the number of overnights (TO), the average number of overnights per arrival (ATO), and the number of beds (NB) in the period 1967-2019 (see Table 3).

Table 3. Correlation analysis

<i>Correlations (Turisti_model) Marked correlations are significant at $p < ,05000$ N=53 (Casewise deletion of missing data)</i>							
	<i>Means</i>	<i>Std.Dev.</i>	<i>TA</i>	<i>TO</i>	<i>ATO</i>	<i>NB</i>	<i>NE</i>
TA	8308,21	3993,15	1,000000	0,963031	-0,324289	0,930593	0,884264
TO	47596,09	19956,53	0,963031	1,000000	-0,072250	0,878013	0,924966
ATO	5,82	0,60	-0,324289	-0,072250	1,000000	-0,425840	-0,131731
TB	762,64	209,08	0,930593	0,878013	-0,425840	1,000000	0,922977
NE	78679,38	19984,03	0,884264	0,924966	-0,131731	0,922977	1,000000

Source: own

It is apparent from the data in Table 3 that there is a strong positive correlation ($r \geq 0.87$; $p < 0.05$) between the number of tourist arrivals, number of overnights, and number of beds, on the one hand, and the number of hotel industry employees, on the other, as well as a moderate negative correlation between the average number of overnights per arrivals and the number of hotel industry employees. Based on the results of correlation analysis, the trial-and-error method was applied in an attempt to construct a suitable econometric model to estimate employment in the hotel industry. Table 4 presents the outcome of regression analysis that resulted in a conclusive multiple regression model.

Table 4. Results of regression analysis

<i>Regression Summary for Dependent Variable: BZ (Turisti_model) R= ,96710552 R²= ,93529308 Adjusted R²= ,93270481 F(2,50)=361,36 p</i>						
	<i>b*</i>	<i>Std.Err. - of b*</i>	<i>b</i>	<i>Std.Err. - of b</i>	<i>t(50)</i>	<i>p-value</i>
Intercept			-60804,5	9395,366	-6,47176	0,000000
ATO	0,319191	0,039759	10703,7	1333,287	8,02808	0,000000
NB	1,058901	0,039759	101,2	3,800	26,63280	0,000000

Source: own

Based on the data in Table 4, a multiple regression analysis model to estimate the number of persons employed in the Croatia hotel industry can be written in the following form:

$$BZ = -60,804.5 + 10,703.7 ATO + 101.2 NB \quad (1)$$

The estimation of the average number of employees in the Croatian hotel industry by 2030 is based on the following assumptions: 1) the number of beds will continue to grow at an average annual rate of 2.52%, as recorded in the observed period 1967-2019; and 2) the downward trend in the average number of overnights per arrival, witnessed since 2001, will continue into the future period at the same average annual rate of 0.988%. Both assumptions seem realistic as they are based on identified trends and on ever greater investment into the hotel industry, particularly into the construction of new hotels and hotel capacities. A forecast of the number of employees in the Croatian hotel industry by 2030 was made based on the above assumptions (see Table 5).

The data in Table 5 show that the number of persons directly employed in the Croatian hotel industry will amount to 158,470, or it can be said with 95% confidence that direct employment in the Croatian hotel industry will range between 151,443 and 165,498 employees in 2030. Regarding the forecast based on the extrapolation of trends in Figure 4, the estimated number of employees in the Croatia hotel industry would amount to 131,971 in 2030. This estimate can be considered the pessimistic version of the forecast number of Croatian hotel industry employees.

Table 5. Forecast of the number of employees in the Croatian hotel industry by 2030

<i>Predicting Values for (Turisti_model) variable: BZ</i>			
	<i>b-Weight</i>	<i>Value</i>	<i>b-Weight - * Value</i>
ATO	10703,74	4,080	43671,3
NB	101,21	1735,000	175603,7
Intercept			-60804,5
Predicted			158470,4
-95,0%CL			151442,5
+95,0%CL			165498,3

Source: own

In accordance with the above and based on the estimations (Pupavac & Pupavac, 2018) that for every two workers employed in the Croatian hotel industry there is one seasonal worker and that for every employee in the hotel industry there are 2.5 workers in hotel industry-related jobs, it can be estimated that in 2030 the Croatian hotel industry will need 79,235 seasonal workers and that the total (direct and indirect) contribution of the hotel industry to employment will amount to 554,645 employed persons.

CONCLUSION

The hotel industry is a dynamic economic activity in which Croatia and Montenegro possess many competitive advantages. The importance of the hotel industry for the economy of both countries is underlined by the high share of hotel industry employees in total employment as well as by the significant number of people gaining income from the hotel industry without being formally/legally employed. In recent times, the hotel industry has generated one in four new jobs in the global economy, thus becoming a vital factor in addressing the issue of unemployment. With the construction of new hotel accommodation facilities and the expansion of existing ones, the number of employees in the hotel industries of Croatia and Montenegro could grow considerably in the future. This is an important fact considering that the effect of the hotel industry on employment is felt beyond the boundaries of the hotel industry itself. In addition to its direct contribution to employment, the hotel industry strongly affects indirect employment in related activities.

The fragility of the hotel industry is evident in times of crises, such as the most recent one caused by the COVID-19 virus, which can have devastating effects on global, regional and national hotel industries but which are generally short-lived. The hotel industries of Croatia and Montenegro have demonstrated their resilience and vigor by surviving, growing and developing despite energy-related, economic, political, military, financial, and other crises. In the aftermath of crises, the hotel industry rebounds, recovering quickly and powerfully, to once again assume its vital role in the global economy and in many national economies.

The potential of the hotel industry to increase employment in Croatia and Montenegro has not been fully harnessed due to the low share of hotels in the countries' accommodation capacities. Namely, hotels are major generators of employment in the hotel industry, and a higher share of hotels in accommodation capacities results in greater quality, higher employment, and lower average number of overnights per tourist arrival. Accordingly, a suitable econometric model was developed, which forecasts that employment in the Croatian hotel industry will continue to grow by an estimated 47.4% by 2030, while the share of the hotel industry in total employment will also continue to increase. The contribution of tourism to total employment by 2030 is estimated at 554,645 jobs.

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