

ROLE OF SMEs IN THE TOURISM INDUSTRY. THE CASE OF ALBANIA

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Abstract

In today's world, tourism is a key source of income in many areas. It is an engine of regional development and in coming years is expected to contribute actively to the diversification of economic structure and the employment challenge across the whole of Europe. Because the tourism sector in Europe is dominated by SMEs (European Commission 2006), inevitably each tourism destination represents an amalgam of the SMEs providing and selling tourism products and offering a wide range of tourism services. The Albanian economy too, especially the tourism sector is dominated by SMEs, which are considered as a major source of entrepreneurial skills, innovation and employment due to their strong economic multiplier effect.

This paper presents a profile of Albanian SMEs in tourism industry and determine their unique characteristics.

The study was conducted primarily through in-person interviews with various actors in SMEs development and the tourism sector in Albania. It was conducted in the most important Albanian cities, where are located the majority of SMEs.

Types of organizations interviewed included the following: small-medium tourism business owners (tour operators and travel agencies, accommodations, restaurants and transportation), representatives of the public sector, chambers of commerce, private banks, micro-credit finance institutions, and private local and international business consulting companies of this field.

The aim of this paper is to determine and analyze the business environment within which tourism companies operate.

As far as possible, this study tried to focus on specific issues to SMEs in the tourism sector. One of the many conclusions reached during this study is that there is a need for more policies for fostering SMEs & entrepreneurship development in support of economic development in Albania. SMEs are well suited to tourism sector in Albania, but they also face a number of challenges and there are a number of weaknesses occurring in tourism SMEs that can constitute barriers to successful tourism development.

Key words: SMEs, economic development, tourism.

Introduction

There is no common definition for SMEs. In Europe according to the European Commission, SMEs are enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. According to Beyenne 2002, small enterprises, which constitute the bulk of established businesses, have from 5 to 50 employees. They are often owner-managed or family controlled businesses and are likely to operate from business or industrial premises, are registered and satisfy other formal registration requirements.

Jones and Haven- Tang (2005) studied 10 characteristics that are popular for SMEs:

- SMEs are job opportunities generator;
- there is the risk of business failure;
- SMEs are more flexible than are large enterprises and small entrepreneur are. They have a closer relationship with their customers, however not too proactive to innovation and technology;
- motivations of SMEs depends on the entrepreneur's way of living and even differentiate through gender;
- business strategies differs from one SMEs to another: some are well managed, some are deficient in business and managerial skills;
- entry of business is easy, but preparations in surviving depends on owner's abilities to manage;
- SMEs are resistant to external assistance due to cultures of self reliance that act like barriers;

- owners are resilient to invest in managerial trainings;
- SMEs have poor market research and knowledge management about customers;
- there are lack of an integrated approach to business planning and functionality.

Methodology

The research, focused on a sample of around 100 SMEs, was based on the information received from several sources, including the following:

Interviews conducted with small-medium tourism business owners and managers (tour operators and travel agencies, accommodations, restaurants and transportation), representatives of the public sector, chambers of commerce.

INSTAT and Ministry of Tourism, Culture, Youth and Sports, which constituted a very important alternative source in relation to different arguments related to SMEs.

Questionnaires addressed to private banks, micro-credit finance institutions and private local and international business consulting companies of this field.

Researching of various literature sources.

Based on these sources, information was collected and processes to draw out the conclusions.

The enterprises were selected on a random basis, although it was ensured that the sample was representative of the different sub-sectors of the tourism industry. However some criteria were used.

Criterion-based sampling in the process of selecting the case study subjects from the population of Albanian private tourism SMEs are:

1. Been in business for at least 10 years.

2. Enjoyed sustained growth over a period of at least 5 years.
3. Employed fewer than 50 people at the beginning of their operation.

The authors gathered the questionnaires by meeting with the people face to face, telephone interviews and via the Internet Technology in accordance with the study.

An overview of smes in tourism

According to Job, Metzler, Muller, and Mayer (2004, p. 56) the tourism industry in Europe is an economic sector dominated by small and medium enterprises (SMEs), with over 99% of firms having fewer than 250 employees, and about 94% employing fewer than ten persons. On average, European tourism SMEs provide jobs for six employees (micro-enterprises).

They significantly contribute to individual countries' GDP. On average, 6.5% of the total turnover generated by SMEs in Europe is sustained by tourism SMEs.

The globalisation of the tourism industry influences the behaviour of small and medium sized enterprises (SMEs), which function in many countries as traditional suppliers of tourist goods and services to consumers on the one hand and as distributors or suppliers or as both to large and

multinational enterprises on the other hand. The dual nature of the supply side of the tourism market composed of both large enterprises and SMEs requires adopting new forms of co-operation that facilitate the effective supply and distribution of tourist goods, services and experiences. Most tourism enterprises operate in a global market, but they also play an important role at the local level. This situation confronts SMEs with many challenges within the framework of both globalisation and regional or local socio-economic processes. The recently changing structures of the tourism-related sectors, the emergence of new destinations and the strong market power of multinational enterprises have created for tourism SMEs development opportunities but at the same time placed them in an increasingly competitive environment.

Tourism small and medium-sized enterprises (SMEs) have very different approaches to the setting and maintenance of quality standards that are critical to competitiveness at an individual business and destination level.

They are considered as critical to the success of a destination. Jones and Haven- Tang (2005) described the role of SMEs in developing a tourism destination's image and service quality along with other stakeholders of the industry (especially government).

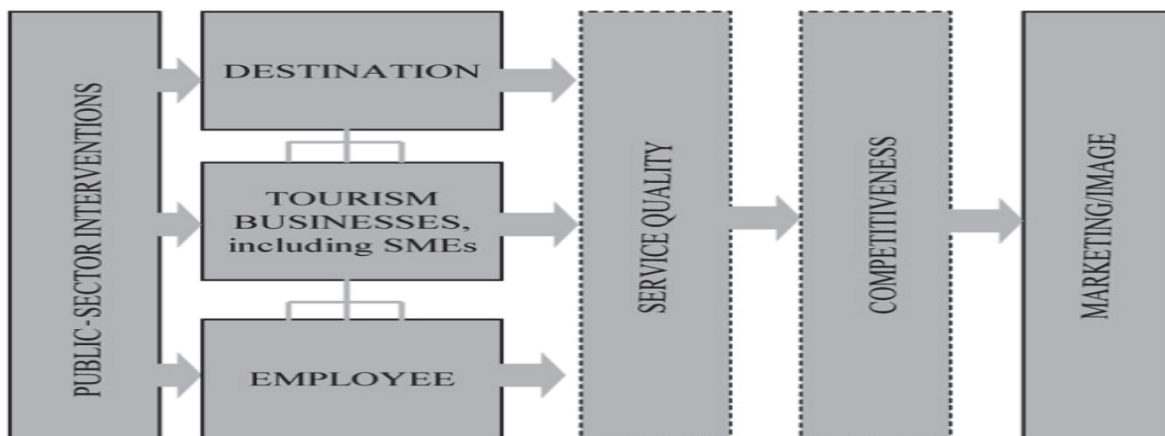


Fig 1: Modelling the role of SMEs in service quality and destination competitiveness

Dagmar Recklies (2001) stated SMEs are characterized by factors like size of enterprise or independent ownership (family of small group of people). These traits may lead to advantages and disadvantages with respect to globalization shown in table1 below:

Characteristic	Advantages	Disadvantages
<i>In Relation to Globalization</i>		
Dependence on a limited number of people (often owners and managers are one and the same persons)	Long-term thinking, perspectives	Static thinking, limited to the experiences and the knowledge of the owner(s)
	Stability	Difficulties to adapt corporate culture to new situations and challenges
	No pressure for short-term success	Potential conflicts between corporate objectives and personal objectives of the owner
	High identification with the business, stable culture	
	High commitment	
Close relationships to customers and business partners	Stable basis for further business	Risk to focus too much on existing basis of business
	Ability to cooperate successfully for mutual advantage	
	Ability and willingness to enter partnerships	
Simple structures	High flexibility and adaptability	In many cases not suitable for the complex planning and implementing of international activities
	Short reaction times	Low willingness to introduce more sophisticated structures
	Cross-functional communication and cooperation within the organization	
Small size	Basis for specialization, often successful with niche strategies	Limited resources (in terms of financial means and manpower)
		Limited funds to finance investments and initial operating losses for new activates
		Spending for market research and market entry take a much higher proportion of total spendings in SMEs than in larger businesses
		Limited number of staff to take on additional tasks
		Lack of internationally experienced employees

Table1 - The characteristics of SMEs (Source: Dagmar Recklies, 2001, Small and Medium-Sized Enterprises and Globalization)

Tourism smes in Albania. Areas of sme activities in tourism industry

Tourism represents one of the world's largest industries and the fastest growing sector of economic activity in Europe (Matlay, 2004). At least, for the last 20 years, international tourism was seen as an important source of growth, employment and income in the transition economies. The growing volumes of international tourism receipts were reflected in their increasing share of GDP, exports and the National Bank's currency reserves, as can be seen in Albania. International tourism was of considerable importance for the Albanian economy, especially in the earlier years of the economic transition. Within the developed and developing countries of the world, it is now generally accepted by policy-makers at local, regional and national level, that small-to-medium sized enterprises (SMEs) are becoming increasingly important in terms of employment, wealth creation and the development of innovation.

Tourism in Albania is characterised by the existence of many small businesses, each providing essential components of the overall tourism product, offering a range of tourism services. Limited-financial resources, insufficiently educated personnel, lack of systematic access to information and knowledge put Albanian tourism enterprises at a disadvantage in relation to their more experienced rivals, and encourage them to look for innovative strategies that will enable to maintain their market position.

At the same time, however, it has increased the level of competition amongst Albanian tourism SMEs, which need to employ appropriate strategies to achieve their business objectives in such a competitive market. Early 1990s saw a great rise in numbers of tourist facilities. A large number of new hotels, travel agencies, restaurants, transportation service provider, entertainment service providers were established within a short period after 1990 in Albania. So, after having changed its political order in 1990, a market

based economy could be introduced in Albania and measures for the development of SMEs.

The Ministry of Economy, Trade and Energy is the responsible institution for business promotion policies including SME development. SME development policies are prepared in line with all SAA and European Partnership and European Charter for Small Enterprises. However, Albania has made slight progress in the implementation process (METE 2007; Bahiti/Rovena 2010). In the Business and Investment Development Strategy (2007 – 2013) the priorities for SME development are defined as follows (METE 2007):

- Harmonisation with sector strategies that have an impact on the SME sector,
- Ensured transparency of decisions and actions affecting the business environment,
- Ensured fair competition and support for the integration of SMEs in the international market,
- Development of information technologies and entrepreneurship culture.

The aim is to annually increase employment by 5%, the number of business by 15%, crediting to the private sector by 3 to 4 times in 4 years, the micro-crediting capacity by 3 to 4 times in 4 years, and gradually reduce the informal sector.

This shall be achieved by several actions:

- ❖ Promotion of entrepreneurship and culture (management and training skills, increase of labour force),
- ❖ Development of growing business with internationalisation potential (improve business climate for SME development, increase competitiveness through innovation and technology transfer),
- ❖ Improvement of SME financing (increase crediting and establish the Albanian Credit Guarantee Fund, increase the amount of micro-credit funds building the capacity of micro-credit institutions).

For this purpose METE established a SME Development Strategic Programme (2007 – 2009) and set up a SME Development Advisory Committee with representatives from Regional Business Agencies, Local Economic Development Agencies, Albinvest, commercial banks and consultancy agencies, entrepreneurs and professional organisations. In order to achieve the results in SME development for the period 2007 – 2009, a budget of EUR 150 million is needed, out of which only EUR 54 million are contributed by foreign donors and EUR 0.75 million were

planned to be covered by the State Budget (METE 2007). SME financing through banks has increased, but is limited to some sub-sectors and in particular start-ups face obstacles receiving loans, since interest rates and the collateral requirements are very high, even for the mid-term credits.

The Italian Cooperation and USAID are both promoting the guarantee and line credit programs. Italian cooperation launched a 25 million EUR credit line which will cover a part of the interest rates of the credits for SMEs with 5,5% interest rate for a max period of 8 years, accompanied with a grant of 1,8 million EUR since the beginning of 2010. The EU has supported Albania's SME sector with an EUR 2.2 million project (EU SME Project Albania) to facilitate access to innovation and technology that give firms a competitive edge in the market. This project enables the establishment of a "Business Relay and Innovation Centre", which shall be a focal point to coordinate and deliver business innovation and technology services and initiatives for SMEs. The project supports the development of an Albanian Business Innovation and Technology Strategy, a National Competitiveness Programme for SMEs, an Albanian SME Development Programme and a training needs analysis for Albania's SMEs. Through these measures, Albanian SMEs will have easier access to new production methods and technology available in the EU that help companies improve the quality of their products, efficiency and marketing. Other donors such as the EBRD are promoting non financial instruments for the SMEs development, which cover approximately half of the expenditure for technical assistance from Albanian service providers to SMEs.

Another important point is the role of SMEs owned by women as contributing in job creation. Women entrepreneurs are more likely to employ women, thus providing jobs not only for themselves but for other women, which helps to reduce the effect of discrimination against women in the labour market. Female entrepreneurs serve as role models for the younger generations, demonstrating new employment (self-employment) opportunities.

Referring to INSTAT, the number of active private subjects at the end of 2006 reached in 77814. Referring to the structures of enterprises, SMEs with 1-80 employees constitutes over 99% of Albanian enterprises. The number of enterprises over 80 employees is 348 companies, while the number of enterprises over 250 employees is only 89.

The number of hotels established in Albania and their capacities has known a large increase from year 1995 to 2011, as we can see in the table below:

YEAR	1995	2005	2006	2007	2008	2009	2010	2011
NR. OF HOTELS	62	220	243	221	252	320	285	248
NR. OF BEDS	2.018	6.742	7.248	8.649	8.038	11.932	11.793	18.905

Table 2 : Number of hotels and bed places in Albania

According to INSTAT, the distribution of hotels capacity is:
80 % of hotels have 1-20 rooms,
13 % of hotels have 20-40 rooms

7% over 40 rooms
While the number of Travel and Tour Agencies operating in Albania is almost 145.

Hospitality is thus at the bottom of the productivity sector of the Albanian (which is normal for a sector with a very intense labour engagement), and at the same time at the bottom of the average labour costs.

Tourism employment in Albania is 6.5% of total employment.

These emphasize the critical importance of SMEs in tourism industry as backbone to the economic health and well-being of Albanian economy.

Issues related to tourism smes in Albania

Despite the fact that the growth rate of the tourism industry in Albania in terms of both tourist arrivals and tourism receipts is evident (see Table 3) , the tourism industry still faces a number of problems.

YEAR	NUMBER OF VISITORS
2008	1.330.138
2009	1.786.045
2010	2.302.899
2011	2.733.650
2012	3.436.236

Table 3: Number of visitors in Albania

Some of the problems identified by the case study taken into consideration by the authors, are discussed below:

- a deficit of equity and limited investment capacity;
- high dependence on the despotism of the state authorities;
- limited opportunities for employees to be educated and trained;
- difficulties in asserting their own identity, in terms of the role they play in the bigger picture of destination development
- limited financial and human resources needed for marketing research and marketing measures;
- limited resources for technical equipment and the implementation of latest technology;
- practically no possibility to influence prices in the market
- disadvantages in purchasing goods and services needed for their own businesses;
- high seasonality ;
- capital shortage
- very weak innovativeness
- low image of solvency;
- difficulties in asserting their own identity, in terms of the role they play in the bigger picture of destination development.

Further barriers also include negative opinions and different social values regarding entrepreneurialism and profit making in Albania and nearest countries (especially from those owners that come from a foreign work culture), the difficulty in obtaining a small loan from banks , which can be a time-consuming process and orientated towards the financing of larger organizations.

These barriers consequently lead to a black market economy of SME activity with governments

unable to obtain taxes from small businesses. The trading conditions for tourism SMEs within Albania become increasingly difficult over the past five years (since the beginning of the global economic crisis) with a maturing market and increased competition. The need to sustain competitiveness has therefore become crucial for tourism SMEs.

The tourism enterprises owners had to face the same difficulties as other small businesses in the transition economies: high interest rates lack of capital, incomplete and unclear regulation, mounting bureaucratic obstacles and corruption.

Other findings of the case study undertaken into tourism SMEs, analyses the key problems of the current development of Albanian tourism SMEs seem to be the following:

- Imperfection of the law: inefficient licensing regulations, over-centralisation of licensing functions, much confusion in the land law;
- Imperfection of the tax system in Albania: fewer tax benefits for SMEs and sectors with low-profit rates, such as tourism;
- Restricted access to financial and credit resources;
- Underdeveloped general infrastructure of the country: bad roads and travel facilities, shortage of accommodation facilities;

The analysis shows that the growth of existing SMEs is a result of commitment, business skills, social networking capacities and ways to deal with the inefficiencies of the system. Entrepreneurship and SME development do not have sufficient “system transformation capacities” unless an institutional structure is in place to orient the entrepreneurial spirit to the generation of new jobs and economic growth.

Conclusions

Tourism has grown significantly over the past years in Albania; however, the effects of the global crisis on the tourism industry also affected Albania. The country is growing as seen by the increasing number of registered overnight stays in hotels (according to National Tourism Agency 2010).

SME development in Albania is still below regional average. As the results of the analysis illustrates, the main challenges for the improvement of national competitiveness remain in fields such as: investment climate, law enforcement, corporate governance (both on the macro and enterprise levels), management skills and business enabling infrastructure.

The analysis of the results of the study enable the authors to identify the major implications for public policy-makers at regional and national levels and for managers of tourism SMEs.

Policy Implications

As indicated throughout the paper, Albanian tourism SMEs face a number of challenges. In order to reduce these difficulties, the public sector offers a wide range of

measures that are aimed at creating favourable conditions for the development of tourism SMEs. While some of these measures will be more effective if they are decided and implemented at regional level, others may require the involvement of national bodies.

One of the spheres that require support is the continuous enhancement of knowledge and skills of the managers and employees of tourism SMEs. The specific areas of focus and the means by which such support is delivered will differ depending on the local needs of tourism SMEs.

The identification of needs related to skills and knowledge might be accompanied by an analysis of the preferences of tourism SMEs concerning the ways in which such skills and knowledge could be enhanced. In practice, however, such approaches make assumptions about the manner in which SMEs learn and engage with public sector agencies which are, generally, not borne out by the evidence (Morrison, 2003; Thomas & Long, 2001).

Although provision of training is the most frequent way in which the public sector supports the development of knowledge and skills, this is not the only vehicle for attaining such a goal. More innovative means by which knowledge and skills of tourism SMEs could be enhanced and how the public sector could support these initiatives are needed. The public sector could introduce measures that facilitate collaboration among tourism SMEs in the form of Virtual Teams, subsidised specialised business advice services or encouragement of networking among tourism SMEs at regional and national levels

Apart from the enhancement of knowledge and skills, other measures are also required to stimulate the competitiveness of tourism destinations. Indeed, there is a symbiotic relationship between the performance of a tourism destination and the viability of destination tourism SMEs.

The need for introducing financial incentives for the development of the sector of tourism SMEs especially other forms of tourism, besides that of sea, sand and sun needs to be encouraged.

There is also an urgent need for the development of the infrastructure which requires the support from the public sector and which currently constitutes a serious barrier to the development of tourism destinations and the viability of tourism SMEs.

Another problem is that of inadequate statistical information concerning tourism SMEs and tourism demand.

Managerial Implications

To compete effectively in a market that is frequently characterised by oversupply, individual enterprises need to develop and implement strategies that can confer competitive advantage. A range of strategic options from which tourism SMEs can choose are available. It is the creative combination of the strategies and the firm's resources that enable tourism enterprises to achieve their long-term goals (Augustyn & Pheby, 2005).

The main problem for tourism SMEs in Albania (as in Central and Eastern Europe) is, however, the preoccupation with achieving short-term financial goals. Consequently, they pay little attention to service quality, customer satisfaction and customer retention, or to sustainability. This requires a significant shift in business philosophies and attitudes but such a shift is necessary if tourism SMEs in Albania are to compete effectively in regional and European markets. While the public sector may be able to offer support, only individual enterprises themselves are able to change their strategies and business practices in such a way that they are more oriented towards satisfying the needs of customers and other stakeholders.

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