

PRELIMINARY REPORT

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**IN TOURISM INDUSTRY WE
TALK ABOUT SUSTAINABLE
DEVELOPMENT, BUT WE
EVALUATE PROFITS
AND GROWTH**

ABSTRACT: Tourism is one of the biggest economic sectors, it has a significant impact on the environment. At the same time, the long-term development of tourism also greatly depends on the environment it affects. Experts are unanimous that it is necessary for the long-term existence and development of tourism that it becomes sustainable. Nevertheless, in tourism businesses, sustainable development strategies are not sufficiently present and put into practice. The author of the article presents the argument as a possible reason for this: the management of

tourism enterprises as well as management of all the companies is focused on doing business successfully; and because the performance of management is assessed in terms of growth and security of its operations, and not in relation to the measures taken in the field of sustainable development, management gives priority to ensuring relatively short-term growth and security of operations.

KEY WORDS: tourism, sustainable development, strategy, management

INTRODUCTION

Tourism is one of the biggest global economic sectors (Lebe and Vrečko, 2015, p.247): it contributes to the global gross domestic product more than the pharmaceutical or the petrol industries; it provides 235 million jobs globally; it has a 30% share in global export of services and accounts for 5% of direct global gross domestic product; it is growing at an average pace of roughly 3.5% yearly.

Tourist destinations attract tourists for various reasons, among which natural beauty is of one of the most important. Wijesinghe (2014) pointed out the resource intensity of the hospitality and tourism industry – it has a significant impact on the environment through its use of physical space, energy, food and water; therefore, it is very important how these resources are used. In order to ensure the existence of tourism as an activity and the attractiveness of tourist destinations on long-term basis, the so-called sustainability of tourism must be enabled. If we talk about sustainable tourism, it is necessary to first define what sustainable tourism is. Various authors and organizations propose different definitions, which are in essence quite similar.

“In tourism, sustainable development represents a way to exercise a business activity such that the needs of both the tourists and the receiving regions are satisfied, while at the same time protecting and fostering future opportunities by preserving essential ecological processes, biological diversity and cultural integrity.” (Marzo-Navarro, Pedraja-Iglesias and Vinzón, 2015, p. 586)

According to WTO sustainable tourism is *“tourism development that meets the needs of the present tourists and host regions while protecting and enhancing opportunity for the future. The resources are managed in such a way that economic, social and aesthetic needs can be fulfilled while maintaining cultural integrity, essential ecological processes, biological diversity and life support systems.”* (Pedersen, 2002, p. 24)

“Sustainable development is a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for generations to come.” (Arnaudov and Koseska, 2012, p. 391)

The above definitions can be condensed into three dimensions of sustainable tourism: economic, sociocultural and environmental dimension (Marzo-Navarro, Pedraja-Iglesias and Vinzón, 2015): the economic dimension refers to satisfying human material needs and objectives, the sociocultural dimension refers to questions of equity, fairness and social development, and the environmental dimension is related to protecting natural environment.

Experts believe that it is necessary for the long-term existence and development of tourism that it becomes sustainable. Marzo-Navarro, Pedraja-Iglesias and Vinzón (2015) mention broad scientific consensus about the need to consolidate an ethical paradigm that combines economic objectives with the principles of ecology, sustainable development and citizen participation. They stress the need to take future generations into consideration and preserve resources and cultures by reconciling economic interests with natural resources and local cultures.

Moreover, some authors are of the opinion (Moscardo and Murphy, 2014) that tourism should benefit to the regions and their inhabitants and they see that tourists could be used to meet the needs of residents and non-tourism businesses instead of asking what resources are available in the destination for tourism.

Speaking about practice, the situation is quite different. In regards to the implementation of sustainability policies, according to Smith and Feldman (2003), tourism industry is one of the least developed industries. Because of such a gap between theory and practice, a general criticism of sustainable tourism is that “both academics and public agencies have taken the concept on board with surplus of enthusiasm but deficit of

results” (Pulido-Fernández, Andrades-Caldito and Sánchez-Rivero, 2015, p. 47).

The questions should be asked about the reasons for the gap between theory and practice and why tourism enterprises do not pay more attention to sustainability.

ECONOMIC ISSUES AND SUSTAINABILITY

Two popular arguments in favour of sustainable tourism are (a) long-term self-interest, and (b) public support of sustainability (Sandve, Marnburg and Øgaard, 2014). As for the long-term interests, it is necessary to recognize that corporate management is often directed primarily at short or medium-term targets, but not in the long-term wins, and therefore sustainable solutions that generate long-term benefits are not implemented. Many business in hospitality industry implement only the sustainability practices that have low start-up costs or those that can make a profit, as for example energy-saving measures in the hotel construction (Geerts, 2014), towel and linen reuse programme (El Dief and Font, 2010; Shang, Basil and Wymer, 2010).

Since it has traditionally been considered that, in the short term, sustainability measures can reduce profitability and compromise competitiveness (Pulido-Fernández, Andrades-Caldito and Sánchez-Rivero, 2015) and because management is oriented at rather short-term goals, unwillingness to change is often justified with short-term economic arguments (Robèrt, et al., 2002).

Moreover, the public, in principle, supports sustainable development, but when individuals are choosing a destination or tourism service, their decision is taken on the basis of other criteria. Interviewed hotel managers stated that environmental certifications were “at present not important for guests when booking a hotel as other selection criteria like price, location and service quality is” (Geerts, 2014, p. 94).

It is ironic, therefore, that in principle we can talk about agreeing on the fact that the sustainable development of tourism is important, but we must also recognize that at this moment tourist activity with the exceptions does not operate sustainably. “While economic issues are prioritized in the present-day context, the environmental and wider elements of sustainability are seen to become more and arguably equally important in the future as the economic aspects of development. However, this equal future is like a horizon keeping its distance from the sliding present day context where decisions are (continuously) made and justified” (Saarinen, 2014, p.8).

In any case, such an attitude to the sustainable development within the tourism business is problematic. Wijesinghe (2014) critically reflects on it claiming that if hospitality/tourism organisations focus solely on profit maximisation, then the organizations diminish themselves within, undermining the whole industry, eventually leading to an unsustainable and crisis ridden world.

Tourist companies do not pay much attention to sustainable development, because solutions that are other than sustainable deliver instant cost savings (and in most cases the only actions taken by these companies are non-sustainable ones). In principle, measures in the field of sustainable development mean short-term expenses and benefit only in the long run. We can therefore agree with Wijesinghe (2014) that the prevailing opinion is that unrestricted growth and profit is “good” and even essential for success of tourism businesses.

The fact that managers of tourism businesses strive for the growth of their enterprises is not surprising, since they were both taught so and are usually also expected to behave in this way. Future managers learn that they have to choose a strategy and then follow it. In this context, possible strategies are proposed: strategy of the maximization of profits, maximization of growth, increasing market share... In addition, managers know that they will be judged by their

performance and they are also aware how they will be judged: they will be largely judged on the basis of the results disclosed in the financial statements.

MEASURING AND REWARDING ECONOMIC SUCCESS AND NOT SUSTAINABILITY

The efficiency of management is, as a rule, measured (both in tourism as well as in other activities) in relation to the growth and security of operations where an appropriate balance between growth and security should be found.

Growth is important, but it is limited with safety. We consider growth as revenue growth, profit growth, growth of the company. From the perspective of financial analysis, growth is certainly desirable, while from the perspective of sustainable development it is necessary to limit it. Since the performance of management (including tourism businesses) is evaluated in relation to financial results, a rise is therefore desirable from the point of view of shareholders. Growth, of course, is not necessarily desirable from the perspective of other stakeholders, but since executives are chosen by shareholders, the priority of managers is to satisfy the needs of shareholders.

Under the safety principle, the owners do not consider sustainable development but security of business, which is reflected in the liquidity and financial stability (or capital adequacy) (Žager et al., 2008). Both criteria of security: capital adequacy and solvency, are interconnected, because, as Vidic and Zaman (2000) found out, the main objective of the requirements for capital adequacy is risk mitigation associated with solvency. Performance of management is judged on its financial results. The financial analysis consists of three areas: analysis of profitability, liquidity analysis and the analysis of use of resources (Glogovšek, 2008; Subramanyam and Wild, 2009). When examining and analyzing the business indicators and tools are used. Performance indicators are relative and are

calculated on the basis of financial indicators. Official Gazette of the Republic of Slovenia (SRS, 2005, p. 13570) defines financial indicators as “absolute numbers, which relate to major economic categories, which are accounting data, for example, assets, share capital, revenues, profits, losses ...” Therefore, indicators of profitability, indicators of financial structure and liquidity indicators are used to analyze a business (e.g. Osteryoung, Newman and Davis, 1997). The achievement of the criterion of security of operations is estimated with the indicators of liquidity and financial structure, while achieving the performance criterion is determined with profitability ratios (Žager et al., 2008).

The profitability indicators measure the ability of companies to generate profits (Osteryoung, Newman and Davis, 1997). Return on equity and return on assets are particularly applied. The aim of the company (regardless of industry, and therefore also in the tourist enterprises) is the maximization of the assets of its owners (Mramor, 1994), thus maximizing the profitability of capital. It is true that the company capital profit can be increased by exploiting the so-called leverage. This means that when the return on assets is higher than that of debt financing sources (i.e. higher than interest), a higher proportion of debt financing sources means a higher return on equity. However, this increases the interest expense and risk of the business, because the lower gains realized reduce the profitability of assets, and if it is lower than the interest, then the lower the return on equity, the greater the proportion is of debt financing sources (Osteryoung, Newman and Davis, 1997). Due to the increased risk, it is even more difficult to obtain additional debt financing sources. Therefore, as a benchmark, which does not affect the funding sources, return on assets is used. Since the aim of the company is to maximize owners’ property (Mramor, 1994), it is obvious that of all the measures of sustainable development solely those which bring immediate savings in tourism businesses are carried out. Since property owners’

profits (increased corporate profitability) are maximized only with these measures in the short term, i.e. only business objectives which can be measured in the current financial year (or at least during the period in which they are appointed) are the measures realized.

The indicators of financial structure or financing condition are used to analyze the financial structure of the company and measure the extent to which a company uses debt financing sources of funds (Osteryoung, Newman and Davis, 1997). Subramanyam and Wild (2009) are of the opinion that these indicators essentially define the risk associated with the structure of resources. Providing adequate financial structure means on the one hand “to ensure the proper volume of long-term funding liabilities” and, on the other hand, “providing the appropriate structure of long-term liabilities, i.e. an appropriate relationship between own and foreign resources” (Vidic and Zaman 2000, p. 39). Research on the causes of insolvency has demonstrated that contraction of its own equity makes the company much more threatened (Glogovšek, 2008). Investments in sustainable development are generally long-term, and in times of crisis, it is more difficult to obtain long-term sources of financing. Since, as a rule, the investments in the sustainable development of a company are such that without them, at least in the short run, the company smoothly operates, the investments in the sustainable development are repeatedly moved to subsequent periods. In addition, the investments are usually associated with borrowing and if businesses are already quite indebted, additional debt may mean undermining their positive business or even existence.

Glogovšek (2008, p. 42) defines liquidity as “the ability of the company to exercise its payment obligations in full and exact amount”. Means of payment that are available at (almost) zero-transaction costs provide liquidity (Moretto and Tamborini, 2007). Companies have part of the funds to provide liquidity for the purposes of the smooth operation of the current business,

another part serves as a contingency reserve for future shocks in the cash flow. Generally, the company can provide liquidity in two ways - you can have cash reserves or borrow money (which is protected by its own means) when it is needed. Both modes are related to the cost: cash reserves represent an opportunity cost, on the other hand, it is necessary to pay interest for borrowed money, so the cost of borrowing for businesses that are non-liquid, may be particularly high (Moretto and Tamborini, 2007). Any expenditure of companies which does not bring revenue or savings in other expenditure in the short term reduces liquidity. Tourist companies, as well as companies in other industries (especially in times of crisis) are not in favor of spending to ensure long-term sustainability, which also does not bring short-term savings. One of the reasons is that in this way they also provide the liquidity needed for the smooth operation.

CONCLUSION

Friedman, in his famous essay “The Social Responsibility of Business is to Increase its Profits” (1970), wrote that the managers in company management should not behave in a socially responsible way, but they should concentrate on the profits of their companies. In accordance with the theory of shareholders, managers should generate profits so as to take into account the legal legislation. Where the only limit are market conditions, there is no room for ethics (Friedman, 1970). According to Friedman (1970) the only social responsibility of companies is to use their resources and activities that will maximize profits. In addition to maximizing profits it is only important that they adhere to the rules of the game, which means that they compete in the market without deception or fraud. According to Friedman’s (1970) view, companies should act only in accordance with the law, not ethics or the principles of sustainable development, as the theory of shareholders

advocates that competitive market conditions do not allow other values (Litzinger and Schafer, 1987; Bertoneclj et al, 2011).

Although today most experts would disagree with Friedman's views from 1970 and they have generally agreed that the long-term existence and development of tourism imperative is that it becomes sustainable, it can be concluded that the market situation shows that the management of tourism companies largely follows Friedman's

principle and not sustainable development. The situation will probably not be changed for the better as long as the management of tourism businesses believe that tourists do not take sustainable development into account as one of the factors when choosing a destination, when deciding on tour services and that they do not focus on the implementation of measures for sustainable development. Only when consumers, i.e. tourists require sustainable tourism from providers, will it be offered by tourist companies.

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