

## AND THEIR SPECIFIC MEANS TO IMPROVE PERFORMANCE

**Băltescu Codruța Adina**

Transilvania University of Braşov Faculty of Economic Sciencies Armata Romană 20, Săcele, Braşov, 505600  
mbaltescu@clicknet.ro 0728994278

*SMEs play an important role in fostering variety, self-fulfillment, and independence in society as well as essentially contributing to social and local integration. Because the tourism sector, especially the hospitality industry, in Europe is dominated by SMEs, inevitably each tourism destination represents an amalgam of the SMEs providing tourism products and services. SMEs are also claimed to be a key factor in the development of tourism destinations, but they also face a number of challenges. Implementing marketing strategies in real-life SMEs firms overcome the talking-doing gap and the problems created by a turbulent environment and by the weaknesses of the firms' structural and systemic mechanisms.*

*Keywords: small medium-sized enterprises, tourism, performance, Internet*

*JEL Classification: M*

**1. Introduction**

According to an EU recommendation (European Commission 2003), SMEs are classified into three categories—micro enterprises, small enterprises, and medium-sized enterprises—based on four criteria. Applicable to all are the number of employees, annual turnover, and total balancesheet. The fourth criterion, independence, is applied only to small- and medium-sized enterprises categories<sup>301</sup>. The details of the criteria are outlined in Table 1.

Table 1. *Definition of Small and Medium-sized Enterprises (SMEs)*

Criteria	Micro Enterprise	Small Enterprise	Medium-sized Enterprise
Number of employees	< 10	< 50	< 250
Annual turnover (millions)	< 2	< 10	< 50
Total balance sheet (millions)	< 2	< 10	< 43
Independence	No more than 25% of the capital or voting rights held by one or more enterprises, which are not themselves SMEs		

Source: European Commission (2003).

A small hotel is financed by one individual or small group [and is] directly managed by its owner[s] in a personalized manner and not through the medium of a formalized management structure. It may or may not be affiliated to an external agency on a continual basis for at least one management function. In comparison to the largest unit of operation within the hotel industry it is perceived as small, in terms of physical facilities, production and service capacity, and number of employees.<sup>302</sup>

**2. Challenges and opportunities facing SMEs in the tourism sector**

The SME sector is regarded as fundamental to the competitive development and as the backbone of the European economy. As stated by the European Commission, “SMEs make a significant contribution in terms of competitiveness, research, innovation, skills and employment”<sup>303</sup>. Furthermore, SMEs are claimed to contribute significantly to the productivity and growth of large enterprises as they increase competition, add to a diversity of enterprises, and adapt new technology and ideas developed in other enterprises<sup>304</sup>. Because the tourism sector in Europe is dominated by SMEs, inevitably each tourism destination represents an amalgam of the SMEs providing tourism products and services<sup>305</sup>. Romania is no exception in this.

SMEs are argued to be well suited to tourism, but they also face a number of challenges. As far as their suitability for tourism is concerned, small business owners have personal contacts with their customers, and they are therefore able to respond rapidly to customers' needs and demands. They provide an interface and a contact between local

301 European Commission, Commission Recommendation of 6 May 2003, 2003/361/EC, Brussels, Belgium: European Commission, 2003.

302 Morrison, A.,M., Small-firm Statistics:A Hotel-sector Focus, Service Industries Journal, Vol 18, No. 1, 1998, p.132-142.

303 European Commission, European Charter for Small Enterprises.Santa Maria de Feira, Portugal: European Commission,2000, p.84.

304 European Network for SME Research, SMEs in Europe,No.7. Luxembourg: European Network for SME Research, 2004.

305 European Commission, A Renewed EU Tourism Policy:Towards a Stronger Partnership for European Tourism, COM, 134 Final, Brussels, Belgium: European Commission, 2006.

culture and tourists and thereby contribute in communicating the particular characteristics of their destination. As SMEs are flexible because of their size, they are also able to provide customized products and services. In addition, through SMEs, tourism expenditure reaches the local economy rapidly<sup>306</sup>.

Turning to the challenges, SMEs in tourism, including those in Romania, and like SMEs elsewhere, face a shortage of financial resources, a lack of management and marketing skills, and a lack of industry expertise and strategic vision.

### 3. The hospitality industry overview in Romania

According to the European Commission, the European tourism industry is dominated by small medium-sized enterprise (SME) organizations, with more than 99% of firms employing less than 250 employees and about 94% employing less than 10 persons. On average, tourism SMEs in Europe provide jobs for 6 employees (microenterprises). Of the total turnover generated by SMEs in Europe, 6.5% is sustained by tourism SMEs. As tourism is a labor-intensive industry, any improvement in performance will enhance employment levels, which, in turn, will enhance competitiveness at the national level<sup>307</sup>.

In our country the small and medium-sized firms account 99,8% of the total units acting on this market, out of which the micro and small enterprises represent the majority (Table 2).

Table 2. *Active enterprises in the “Hotels and Restaurants” activity, by size class (number units)*

Year	Total	of which:by size class according to employee number							
		0-9	%	10-49	%	50-249	%	250 and over	%
2004	17240	15409	89,4	1571	9,1	233	1,3	27	0,2
2005	19229	17157	89,2	1821	9,5	226	1,2	25	0,1
2006	20579	18178	88,3	2148	10,4	228	1,2	25	0,1

Source: www.insse.ro

Furthermore, the analysis of the units type suggests that the small establishments of tourist reception with functions of tourists accommodation, such as tourist villas, urban and rural tourist boarding houses, tourist chalets, bungalows, hostels and hotels for youth dominate the romanian lodging industry, by representing more than 70% of total active units in 2006 (Table 3).

Table 3. *Establishments of tourists reception with functions of tourists accommodation , by type of establishments*

Number of establishments	2004	2005	2006
<b>Total</b>	3900	4226	4710
Hotels	928	993	1066
Motels	15	11	9
Hotels for youth	10	25	34
Hostels	21	33	41
Tourist villas	691	716	742
Bungalows	279	305	298
Tourist chalets	132	113	116
Holiday villages	2	3	2
Campings	72	72	68
School and pre-scool camps	157	151	128
Tourist halting places	25	29	31
Urban tourist boarding houses	461	597	702
Rural tourist boarding houses	892	952	1259
Houselet-type units	53	52	53
Ship accommodation spaces	13	9	7

Source: www.insse.ro

Weights of staff and turnover in active SMEs in the romanian hospitality industry, as well as the staff of these enterprises complete the description (as shown in Table 4 and Table 5).

Table 4. *Weight of staff and turnover in active small and medium “Hotels and Restaurants” enterprises(percent)*

306 Buhalis, D.,Cooper, C.,”Competition or Co-operation?” In Embracing and Managing Change in Tourism,edited by Laws,E., Faulkner, B.,Moscardo,G., Routledge, London, 1999, p. 324-346.

307 Phillips, P., Louvieris, P., Performance Measurement Systems in Tourism, Hospitality, and Leisure Small Medium-Sized Enterprises:A Balanced Scorecard Perspective, Journal of Travel Research, Vol.44, 2005, p.201.

Weight off:	2004	2005	2006
-staff	85,1	85,6	86,2
-turnover actived	77,8	78,8	81,1

Source: www.insse.ro

Table 5. *Staff of active local units, by size class according to employee number, in 2006 (member persons)*

Activity	Total	0-9	10-49	50-249	250 and over
Hotels and restaurants	123071	44840(36,4%)	44497(36,2%)	24447(19,9%)	9287(7,5%)

Source: www.insse.ro

#### 4. Improving business performance in hospitality SMEs

The importance of SMEs for tourism in Europe is clear. At least in terms of numbers they dominate the tourism sector. They do, however, lack resources.

An analysis performed recently among the SMEs in the tourism industry outlined the following issues:<sup>308</sup>

- Enterprises are seldom, if ever, self-sufficient, and they need to exchange resources to survive.
- Start-up enterprises are particularly in need of adequate externally sourced resources.
- SMEs intending to internationalize are often held back because of a lack of appropriate resources.
- Resource dependence theory suggests that a possible way of managing dependencies is to *enact* its environment. Enacting means that by responding to environmental and resource factors organizations attempt to reduce uncertainty by minimizing their dependencies. Strategic planning is one possible way of “enacting” the environment. It was assumed that those SMEs that plan their operations would be more aware of the demands in their environment and would be able to respond to them better. Therefore, they would be less dependent on external resources than SMEs that did not make plans.
- Growing SMEs have a greater need for external resources than do enterprises that do not aim to grow. Use of external resources may increase an SME’s dependence on resource providers. Therefore, enterprises’ plans for the future were expected to explain differences in the extent of resource dependence between enterprises.
- Cooperation not only is considered to be an important factor in helping small enterprises achieve economies of scale and expand their business but also is believed to be important for their mere survival. SMEs might need to cooperate with other organizations to gain the resources they require. Cooperation is a means for an organization to decrease its dependency on external resources.

The following actions provide a way to overcome the number of challenges:<sup>309</sup>

- Collect the relevant information to support financial decision making. In essence, operators will be better equipped to formulate performance measurement strategies if they work with appropriate information.
- Build a customer profile. Operators are not able to set effective customer related indicators and targets unless they have a good understanding of their customer base. SMEs should be aware of who their customers are, where they come from, what they expect from a visit, and whether they will return.
- Investing in staff is essential. Operators should think more about their internal business processes and enable them to form more effective performance measurement strategies across the business as a whole—in terms of the guest/staff relationship, encouraging innovation, and facilitating learning, as well as refining internal operations.

A study carried out among 242 small firms in the tourism accommodation sector in Canada indicates that success requires an emphasis on both transaction marketing and interaction-based relationship marketing to acquire customers and achieve sales growth. More contemporary practices such as database marketing, e-marketing, and network marketing are in evidence, but they are not found to influence performance. Furthermore, it is success with customer acquisition rather than customer retention that leads to profitability for these firms. On one hand, these firms focus their efforts on establishing and developing relationships at an individual customer level based on face-to-face and interpersonal contact. On the other hand, they also focus on managing their offer to attract customers in a more arm’s-length and impersonal manner, and invest in internal marketing assets to develop classic marketing mix capabilities. The findings for e-marketing and database marketing support reports that the tourism industry may not be using online or database technology to its full advantage, although some level of implementation is apparent across most firms. The lower level of network marketing (a practice requiring interfirm cooperation) is also consistent with the high proportion of independent operators in the study. Finally, when certain practices are implemented (e.g., database marketing and network marketing), this tends to be with somewhat larger firms; firms likely having a greater resource base for such activities.

308Seppala-Esser, R., Airey, D., Szivas, E., The dependence of Tourism SMEs on NTOs-The case of Finland, Journal of Travel Research, March 2009, p.1-14.

309 Phillips, P., Louvieris, P., quoted work, p.201-211.

Turning to the marketing practice-performance relationship, the study shows four interesting results. First, customer retention is positively associated with interaction marketing, whereas customer acquisition is positively associated with both interaction marketing and transaction marketing. Consequently, the interaction form of relational marketing is effective as both an offensive and defensive strategy, whereas transaction marketing is an effective offensive strategy. Second, customer acquisition is positively associated with sales growth, whereas retention is not. Third, only sales growth (and not customer retention) is positively associated with profitability. Fourth, although the sample was dominated by smaller firms, the findings for the practice-performance relationship are independent of firm size. These results suggest that for tourism accommodation firms, (a) customer acquisition appears more important to financial success than customer retention, and (b) transaction marketing is still relevant to the customer acquisition process. Given the findings, the conclusion is that tourism accommodation firms profit from sales growth, generated by the use of interaction marketing and transaction marketing, to attract customers. Furthermore, investment to retain customers seems inconsequential for the firms in the study regardless of firm size or market served. Despite increased attention in the literature on newer forms of practice such as database marketing, e-marketing, and network marketing, and the fact that they are all implemented by the firms in the sample, these forms of marketing appear to have no impact in terms of either directly influencing performance or enhancing the effect of transaction marketing and interaction marketing<sup>310</sup>.

From the early stages of the internet's commercial use several authors outlined the unprecedented opportunities for small businesses. It was suggested that the internet would assist organizations in the areas of communications, personnel, sales, advertising and business intelligence. Those observers thought the internet would support innovative small businesses and even individual entrepreneurs in developing 'virtual size' so that they could compete with much larger corporations. The outcome would be that all businesses would effectively become worldwide enterprises regardless of whether they wished or planned for such globalization.<sup>311</sup>

In comparison to other industries, the tourism and hospitality industries have traditionally been relatively slow on the uptake of new information technologies. This has especially been the case amongst small to medium-sized tourism enterprises (SMTEs). In many respects, the major impediments to SMTEs' uptake of the Internet appears to be the confusion caused by the masses of information concerning e-commerce, Internet marketing, online promotion and the plethora of solutions currently available, as well as issues related to the adoption of new technologies, the initial financial burden of uptake, the structural nature of the market and problems with content and design. If SMTEs are to remain competitive they need to overcome these impediments and they must decide on how to strategically use the Internet as an important marketing tool. Many of these businesses have few clients to manage at any one time and accounts are open for short periods of time compared to other credit dependent industries, therefore there has been little need for advanced software applications. There are many cost-effective promotional opportunities afforded by the Internet, and the demographic similarities between Internet users and consumers of tourism and hospitality goods and services is obvious. Some of the steps to follow include<sup>312</sup>:

- Developing a site (defining the website's objectives, clearly identifying the target audience, establishing the buyer-readiness stage of the target audience, developing simple and persuasive messages, answering all of the most frequently asked questions, avoiding the use of gimmicky technology, promoting the website).
- Distribution. Searching and indexing of the Internet is now dominated by a handful of large players (Yahoo, Google). In addition to these mainstream search facilities, there are a growing number of specialist search engines and directories offering highly targeted distribution to particular businesses such as those within the tourism and hospitality sector. The only way to increase the distribution of the independent site is to list the URL in as many relevant places as possible.
- Joining a special-interest site/portal.

## 5. Conclusions

This paper outlines that managers within best practice SME tourism, hospitality, and leisure organizations who wish to develop effective performance measurement systems should incorporate digitization, holistic approaches, and well-trained and motivated staff into the process. Managers should aim for digitization to enable the swift and accurate retrieval of information from financial and management information systems, a system that would, in turn, allow for greater operational control. Financial, customer-related, internal business process and innovation and learning should not be measured in isolation but must be viewed as part of a whole. Staff should be acknowledged in the formation and performance measures. Well-trained and empowered staff enhance the guest experience, track and evaluate the effectiveness of internal business processes, and drive innovation and learning.

---

310 Coviello, N., Winklhofer, H., Hamilton, K., Marketing Practices and Performance of Small Service Firms: An Examination in the Tourism Accommodation Sector, *Journal of Service Research*, Vol.9, No.1, 2006, p.38-58.

311 Paraskevas, A., Buhalis, D., Outsourcing IT for Small Hotels: The Opportunities and Challenges of Using Application Service Providers, *Cornell Hospitality Quarterly*, Vol. 43, 2002, p.27.

312 Christian, R., Developing an online access strategy: Issues facing small to medium-sized tourism and hospitality enterprises, *Journal of Vacation Marketing*, Vol.7, No.2, 2001, p.170-178.

## References

1. Buhalis, D., Cooper, C., "Competition or Co-operation?" In *Embracing and Managing Change in Tourism*, edited by Laws, E., Faulkner, B., Moscardo, G., Routledge, London, 1999.
2. Christian, R., Developing an online access strategy: Issues facing small to medium-sized tourism and hospitality enterprises, *Journal of Vacation Marketing*, Vol.7, No.2, 2001.
3. Coviello, N., Winklhofer, H., Hamilton, K., Marketing Practices and Performance of Small Service Firms: An Examination in the Tourism Accommodation Sector, *Journal of Service Research*, Vol.9, No.1, 2006.
4. European Commission, *European Charter for Small Enterprises*. Santa Maria de Feira, Portugal: European Commission, 2000.
5. European Commission, Commission Recommendation of 6 May 2003, 2003/361/EC, Brussels, Belgium: European Commission, 2003.
6. European Commission, *A Renewed EU Tourism Policy: Towards a Stronger Partnership for European Tourism*, COM, 134 Final, Brussels, Belgium: European Commission, 2006.
7. European Network for SME Research, *SMEs in Europe*, No.7. Luxembourg: European Network for SME Research, 2004.
8. Morrison, A., M., Small-firm Statistics: A Hotel-sector Focus, *Service Industries Journal*, Vol 18, No. 1, 1998.
9. Paraskevas, A., Buhalis, D., Outsourcing IT for Small Hotels: The Opportunities and Challenges of Using Application Service Providers, *Cornell Hospitality Quarterly*, Vol.43, 2002.
10. Phillips, P., Louvieris, P., Performance Measurement Systems in Tourism, Hospitality, and Leisure Small Medium-Sized Enterprises: A Balanced Scorecard Perspective, *Journal of Travel Research*, Vol.44, 2005.
11. Seppala-Esser, R., Airey, D., Szivas, E., The dependence of Tourism SMEs on NTOs-The case of Finland, *Journal of Travel Research*, March 2009.
12. [www.insse.ro](http://www.insse.ro) Accessed: 9.05.2009e