MANAGERIAL IMPLICATIONS FOR TOURISM SMES IN THE CONTEXT OF EUROPEAN INTEGRATION: THE CASE OF BRAȘOV

NICOLAE MARINESCU

ABSTRACT. This paper examines the economic and managerial impact of Romania’s accession to the European Union for small and medium-sized enterprises (SMEs) active in the field of tourism. First, a brief description of the tourism sector in the European Union is given, stressing the fact that this sector is dominated by SMEs. Then, a short comparison is made between EU and Romanian tourism SMEs. Following the main characteristics and tendencies of the tourism sector, a SWOT analysis is developed for Romanian tourism SMEs in the context of European integration. Selected factors of the SWOT analysis are chosen as a starting point for outlining the managerial implications that Romania’s integration into the European Union brings about for tourism SMEs. A particular focus is put on the tourism SMEs in Brașov city, one of Romania’s most important tourist destinations. Furthermore, the managerial features of these SMEs are investigated based upon statistical data and own findings by means of empirical research. Finally, some suggestions concerning the improvement of management of tourism SMEs are made, with a special emphasis on the strategic option to be chosen.

KEYWORDS: SMEs, tourism, management, European integration, Brașov

JEL CLASSIFICATION: L8

Tourism SMEs in the European Union

The European Union is the most important tourist destination worldwide, concentrating more than 50 per cent of revenues and 60 per cent of arrivals. Five countries of the EU list in the world’s top ten tourist destinations, among which France ranks first in tourist arrivals. Tourism has had a continuous growing trend in the EU since the 1980s. Today, EU’s tourism industry generates almost 5 per cent of the GDP and comprises more than 7.3 million employees (4 per cent of the total workforce), to which one can add another 13 million indirect jobs in related activities2.

There are about 2 million firms in the European basic tourism sector and SMEs dominate the picture, representing more than 99.9 per cent of all firms. Out of these, 93 per cent are microenterprises, generating about 50 per cent of total turnover in tourism, almost 40 per cent of value added and more than 45 per cent of jobs.

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2 Leidner, R. – The European Tourism Industry, European Commission, 2004, p. 4
As indicated in the table above, tourism SMEs in the EU add up to more than 80 per cent of employees in tourism, high above the average of other sectors (66 per cent). SMEs also generate more than 80 per cent of turnover in the tourism industry.

Most of SMEs (around 97 per cent) are hotels & restaurants and only the remaining part (3 per cent) are travel agencies, but productivity figures are roughly three times higher for travel agencies than for hotels & restaurants.

The average number of employees is 6, suggesting the highly fragmented character of the sector, especially in hotels & restaurants. The big chains in this industry account for only 10-20 per cent of total capacity. Hotels in the EU, most of them owned and run by members of a family, offer a consistent variety of services, especially at the countryside, variety that couldn’t be matched by the big brands at comparable prices. The situation is somewhat different for travel agencies, as the level of concentration has grown rapidly in the last few years. The first 5 players on the market had a market share of 35 per cent in 1997 and, by means of integrative actions, reached up in 2002 to a cumulative 70 per cent market share\(^3\).

Tourism SMEs in Romania

Just like in the EU overall situation, SMEs represent in Romania as well the fundamental part of the tourism sector.

Table 2.

The distribution of Romanian tourism SMEs on categories

<table>
<thead>
<tr>
<th></th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of firms</td>
<td>15,412</td>
<td>1,574</td>
<td>233</td>
<td>17,219</td>
</tr>
<tr>
<td>No. of employees</td>
<td>35,058</td>
<td>30,080</td>
<td>19,691</td>
<td>84,829</td>
</tr>
<tr>
<td>Turnover (mil. ROL)</td>
<td>13,918,530</td>
<td>10,985,319</td>
<td>8,729,205</td>
<td>33,633,054</td>
</tr>
</tbody>
</table>

Source: Adaptation after ANIMMC – Raport anual, 2005

Tourism gathers 4.4 per cent of all SMEs in Romania, which represents a smaller percentage than that of the EU. But, similarly to the EU, microenterprises dominate the tourism industry, in numbers and as well in employment. The average number of employees is 4.9, less than in the EU. Due to the smaller initial

\(^3\) Leidner, R. – *The European Tourism Industry*, European Commission, 2004, p. 61
investment compared to other sectors, SMEs concentrate more than 99.9 per cent of firms, and more than 80 per cent of employment and of turnover in the tourism sector. This is very much alike to the situation in the EU.

Table 3.
The share of tourism SMEs in the Romanian tourism industry (%)

<table>
<thead>
<tr>
<th>SMEs</th>
<th>No. employees / total employment</th>
<th>Turnover / total turnover</th>
<th>No. of SMEs / all firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>86.0</td>
<td>79.1</td>
<td>99.9</td>
</tr>
</tbody>
</table>

Source: Adaptation after ANIMMC – Raport annual, 2005

The evolution of tourism SMEs in Romania is characterized by a pronounced demography, birth and death rates being high due to the constantly changing environment and several constraints, mainly financial and managerial. Failure has a variety of reasons, e.g. inadequate location, bad positioning, lack of correct segmentation, poor quality of services offered and difficulty of finding specialized personnel. Even though the share of tourism SMEs has grown over the last few years, it is still surprisingly small for a country with a high tourism potential, such as Romania. Compared to the EU, with an average of 5 tourism SMEs for every 1,000 citizens, in Romania there is only 1 tourism SME for every 1,000 citizens.

This stems from the late start of privatization in the sector, the lack of significant foreign investors, the modest investment undertaken and bad management of tourism programs on part of the authorities. The hotels category is plagued with a very low occupancy rate (an average of 34 per cent at country level, according to the national statistics). The productivity of Romanian tourism SMEs is also much lower than of their EU counterparts.

**Tendencies in European Tourism**

The tourism sector has gone through essential changes in the last years. The wish of tourists for shorter, but more frequent breaks, travel on one’s own, last-minute reservations, higher anticipations for the services offered have put supplementary pressures on tourism SMEs and have risen the stake for versatility. Some of the most important tendencies in tourism consist in:

- the growth rate of tourism has been higher than that of the world economy;
- highly fragmented character, tourism being dominated by SMEs;
- increasing international mobility of persons and the establishment of a “tourism civilization”;
- end of political isolation for several countries;
- liberalization of air travel, but also additional security costs;
- rise of alternative forms of lodging and dining, which have cut into the market share of the traditional hotel & restaurant sector;
- expansion of computerized reservation systems;
- vertical integration through the elimination of several tour-operators by suppliers that create and sell their own tourism packages via the internet;
- increase of the customer segment over 50 years;
- diversification of tourism types: adventure travel, green tourism etc.;
- seemingly endless possibilities of differentiation and of market segmentation.

**SWOT Analysis of Romanian Tourism SMEs**

In order to have a more detailed assessment of the main features of Romanian tourism SMEs, a SWOT analysis has been undertaken at this point.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>- share of firms owning a website is almost double than the national average.</td>
<td>- lack of investment for modernization</td>
</tr>
<tr>
<td>- individualized offer of services.</td>
<td>- poor quality of services</td>
</tr>
<tr>
<td>- ability to adapt quickly to changes in demand and to seasonal tendencies.</td>
<td>- inadequate attitude of personnel</td>
</tr>
<tr>
<td>- personal contact with customers</td>
<td>- bad image among employees due to low wages</td>
</tr>
</tbody>
</table>

The list is far from being complete, comprising only some of the most important elements that characterize Romanian tourism SMEs nowadays. The strong points derive from the traditional functions of SMEs and the advantages brought about by their flexibility, while the weaknesses pertain to the small size of firms, managerial limitations and difficulties associated with personnel.

To these internal factors, one should add the opportunities and threats that arise for tourism SMEs, especially from European integration.

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tr>
<td>- market expansion through accession to the European Union</td>
<td>- increasing concentration on the market through integrative actions</td>
</tr>
<tr>
<td>- European financing programs</td>
<td>- fierce competition from hotel chains and large tour-operators</td>
</tr>
<tr>
<td>- tendency of firms to go international</td>
<td>- regulatory burden from accession to the European Union</td>
</tr>
<tr>
<td>- the rise of China on the world market</td>
<td>- pronounced seasonality of the sector</td>
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<td>- outsourcing made by large companies</td>
<td>- random factors: climatic, social etc.</td>
</tr>
<tr>
<td>- new and diversified types of cooperation (e.g. franchising)</td>
<td>- additional measures for environmental protection</td>
</tr>
<tr>
<td>- rapid growth of information technology, the internet and e-commerce</td>
<td></td>
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Combining the internal and external factors included in the four quadrants of the SWOT analysis gives rise to four possible strategic approaches. In the case of Romanian tourism SMEs, weak points prevail over strong ones as statistical data countrywide and international comparisons clearly show. With Romania’s accession to the EU a wide range of opportunities open up for SMEs, so the strategic option to be followed is WO, i.e. the use of opportunities to trigger a mitigation of weaknesses.

With the liberalization of many sectors, rising personal mobility and faster transports and communications, many barriers to the internationalization of SMEs have disappeared. European integration offers access to an additional market of 450 million inhabitants, a most favorable opportunity for Romanian tourism SMEs to gain valuable insight into an enormous potential tourism market.

There is also the lure of European funds that can be accessed through a variety of programs. EU support for tourism SMEs does not consist only in structural funds, but also in delivering relevant information, consultancy for the development of strategies and promotion of cooperative actions between enterprises in the member states.

One such opportunity is the registration in the database of the network of EuroInfoCentres. These offices help SMEs to easily make their firm and offer known at pan-European level and also to initiate contractual and cooperative relationships with other SMEs.

The adoption of the *acquis communautaire* ensures an improvement of the business environment and guarantees a more efficient legal and institutional system for SMEs. On the other hand, there are also supplementary costs to be taken into account for. Fiscal incentives have been largely eliminated and according to the law, those who run a tourism business have to be certified as having graduated specialized courses in the field of tourism.

EU standards and regulations are often considered too costly, too bureaucratic and even inadequate for SMEs, as they put additional financial pressure and widen the burden of compliance to certain rules. Quality, safety and environmental regulations will become more and more rigorous, forcing tourism SMEs to purchase the necessary equipment and to make the necessary investments for compliance.

It is easy to conceive that those SMEs which will be the fastest in meeting these standards and will have their products and services certified from a quality point of view, will enjoy a competitive advantage and reap the benefits of the single market, by facing successfully the continuously increasing competition.

Managerial Features of Tourism SMEs in Braşov City

According to statistic figures, in the city of Braşov, 5.5 per cent of all SMEs carry out their main activity in tourism. This percentage is higher than that registered at national level, due to the fact that Braşov is one of the main tourist destinations of the country, having developed specific tourist attractions and infrastructure. Braşov’s tourism SMEs also contribute with 6.2 per cent to employment, but only with 3.8 to the total turnover of SMEs.
Considering the main managerial characteristics of tourism SMEs in Braşov, from an empirical research undertaken by the author on a representative sample, the following findings have been selected.

When taking into account the planning activity, objectives are usually set on short term, most often 1 year or even less. Only 28.6 per cent of tourism SMEs plan on a longer-term perspective (2-3 years), generally in function of the tendencies identified on the tourism market with respect to the preferred destinations and the packages chosen by tourists. The seasonal character of tourism operations and the frequent changes in demand and in the business environment often don’t permit long-term planning. The lack of adequate managerial training may also be one of the causes for the slack strategic planning in Braşov’s tourism SMEs.

SMEs confront themselves with various external obstacles that are beyond the reach of managers, for instance insufficient investment capital and strong competition, as indicated by managers in the sample. The legal framework was cited by 45 per cent of managers as the most important barrier to their activity. Weak infrastructure has also been considered a hindering factor for the development of tourism in Braşov.

But besides the external factors, there are also enough internal obstacles, pertaining to the management, that contribute to the precarious financial situation of tourism SMEs.

One of the most significant is the lack of vision and of strategy in the management of the firm, combined with little delegation, situation which leads to the overloading of the manager with tasks, so that the priority is given to daily decisions. The chronic lack of time demonstrated by the majority of managers shows that they rarely sit and ponder on the direction in which the firm is heading.

Underlining this assumption is the fact that few managers admitted to have a written strategy. 58 per cent of SMEs that answered the questionnaire don’t have a precise, written strategy and 51 per cent don’t have prepared alternative actions to cater for changes in the business environment. This proves that more than half of managers of tourism SMEs in Braşov lead on intuitive basis and on a strategy set in the mind, rather than using plans or rigorous prognosis.

Even if in SMEs typically a large part of the managerial process is based on the entrepreneur’s intuition and on his ideas about strategy, tourism SMEs in Braşov do not prove a strategic behavior that should exist in modern firms. In fact, it can’t be called “strategy” in the real sense, as it encompasses rather a course of action than a serious plan meant to lead to a competitive advantage.

In the case of most tourism SMEs, following one of Porter’s basic generic strategies of cost leadership and differentiation, is a completely unknown thing and, consequently, it is not applied as such. A lot of them oscillate between the two strategic options and get actually caught in the “middle trap”, without having defined a certain strategic position.

This comes along with the absence of an adequate competitive behavior and with insufficient information about the own posture compared to direct rivals.
A big chunk of the managers consider that the products and services their firms offer are superior in quality compared to competition (64 per cent of answers) as well as having lower prices (79 per cent of answers). Such a situation is clearly impossible at an aggregate level and demonstrates a lack of sincerity and/or sense of reality on part of the managers.

It is true that in the case of SMEs, competitive advantage can stem from a certain element of operation which the manager develops in order to differentiate from the competition and which accrues special benefits to the customer. Customer perception in measuring quality is very subjective in tourism, influencing thus the balance in favor of one firm or another.

Nevertheless, the neglect of competition and poor knowledge about the firm’s own strong and weak points is another managerial deficiency identified during the research. Although direct competition is considered an important threat, managers regard it as a distant aspect and do not treat it seriously enough. Some managers even stated to not have any competition or direct rivalry for customers, as their price/quality ratio would annihilate any possible competition.

The biggest managerial barrier to the activity of tourism SMEs came out in the end to be the insufficient economic and managerial training. The largest part of managers surveyed indicated that their training was provided by daily operation itself (71 per cent), to which one can add various specializations and professional courses. Only about one third of managers graduated business or economics higher education of some kind and this surely has an impact on the way the firm is run and its results.

Suggestions

The enlargement of the European Union is a complex integration process that alters the business environment in which tourism SMEs operate, in old as well as in new member countries. One worrying factor is the incomplete and incorrect information about opportunities and costs brought about by Romania’s accession to the EU, which will generate a lot of trouble for SMEs. That is why all informative programs and actions on this topic, general or specialized for the tourism sector are welcome. They can be carried out through Chambers of Commerce, EuroInfoCentres or by independent training and consulting firms.

Tourism SMEs should try to capitalize on the opportunities offered by the single market and by the opening up of markets, adopting a strong international orientation. This means studying the world tourism market and its trend, looking for tourists along with promoting the firm’s offer abroad and take into account the tendencies of European tourism, especially considering the segmentation of tourists by their age, preferences, purpose of traveling etc. so as to cater for their special needs. The process of segmentation is still poorly developed in the Romanian tourism offer.

Looking beyond the EU, the same goes for China, which can be considered the new Mecca for tourism. China’s outbound tourism has experienced a fantastic increase over the last few years and all EU countries, including Romania, have signed with the Chinese government the ADS (approved destination status).
Romanian travel agencies should try to open up most rapidly tourism promotion offices in China, in cooperation with Chinese firms, so as to reap the benefits of this boom. The tourist offer for Chinese citizens should be adapted to include a Chinese translator, Chinese web pages, contracts with Chinese restaurants along the itinerary and other specific components of a tourism package.

The net result of the favorable opportunities brought by internationalization in a European integration context and the threats of an increased competition will hopefully be a positive one on a long-term basis for Romanian tourism SMEs. It will all depend on the abilities of the individual managers to overcome these major changes in such a way as to achieve better performance.

Even if a lot of the tourism business depends on authorities (infrastructure, national promotion etc.) solving the problems is still a microeconomic task. Managers of tourism SMEs shouldn’t wait for solutions from the government, local authorities or banks. Local initiatives for the formation of networks, associations or small investment funds could bring important benefits to the participant firms and help them exploit some economies of scale.

Tourism SMEs need a strong reorientation of their activities, with the introduction of a new, more flexible style of management, an ability to innovate and a more in-depth use of the electronic medium.

For SMEs that choose to stay independent the suggested strategy is that of differentiation, by building an own brand and a good reputation. It is in practice the only way they can counter the big chains beginning to rise in the tourist industry. In this context, human resources and a continuous improvement of their qualifications will be one of the critical elements for the success of such a strategy. This comes along with a serious commitment towards ensuring a higher quality of services. Another element that constitutes an absolute must in this respect is a strong orientation towards the consumer. This goal has to become a mainstay of the firm’s activity and must transcend all areas of operation. The above elements cannot be fulfilled and put into practice if they are not completed by a more professional approach of management. Owner-managers of SMEs should strive to improve their abilities and to base their decision-making on a more rigorous information and research process in the period to come.

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