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CHALLENGES OF TOURISM AND BUSINESS LOGISTICS IN THE 21ST CENTURY



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PREFACE

The Faculty of Tourism and Business Logistics in Gevgelija, at the Goce Delcev University - Stip, hosted the First International Scientific Conference, "Challenges of Tourism and Business Logistics in the 21st Century".

The conference was held on 24 and 25 October 2017 in Gevgelija with an optional visit to Dojran - Dojran Lake.

32 works of 60 authors from Serbia, Latvia, Turkey, Poland, Bulgaria, Kosovo and Macedonia were presented at the Conference.

The purpose of the Conference is exchange of ideas and experiences of the participants coming from Macedonia and abroad, and establishment of cooperation for further development of tourism and business logistics in Macedonia and beyond.

The results of the Conference are visible through publication in a collection of papers, which is presented to a wider scientific audience and the public.

In this way, we want to promote the Faculty of Tourism and Business Logistics, to promote Gevgelija and Dojran as the most visited settlements in the south-eastern part of Macedonia.

Gevgelija - Stip,
December 2017

Editor
Nikola V. Dimitrov Ph.D. *Dean*

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EFFECTS OF TOURISM ENTREPRENEURSHIP ON REGIONAL DEVELOPMENT

Branko Nikolovski¹, Tatjana Dimoska², Zoran Tuntev³

Abstract

The process of tourism entrepreneurship is seen as the path to enhance local economies in given environments: social, cultural, and physical. Small tourism enterprise (STE) has significant contribution towards new product development, innovative entrepreneurship and regional development. STEs face numerous business obstacles due to their managerial weaknesses, limited access to external expertise and finance, and institutional regulatory environments that promote barriers to the new entry and business growth. These obstacles can be overcome through various government initiatives: identifying the best practices, benchmarking, access to financial support and labor force skills development. The aim of this paper is to examine tourism entrepreneurship contribution to regional development in a transitional economy environment. Also, we will examine some theoretical models of regional development, which will identify issues and constraints facing STEs development, serving policy makers in better integrating of small-firms sector into wider regional and national economies.

Key words: *Tourism, Entrepreneurship, Regional Development*

JEL classification: L26, Z32

Introduction

Tourism as an important social and economic phenomenon, with distinct and dynamic development, has many positive effects. Those can be direct as well as indirect; can be seen as socio-psychological or economic improvements. Economic development through tourism is natural inclination of most world-wide and local initiatives. Governments in the face of decreasing employment in agriculture and industry, and a failure to attract foreign direct investments have turned to tourism as a last resort. That is why it is necessary to first gain an understanding of the role small

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and medium size tourism enterprises play in economic development, before making decision about specific development strategy. The reason lies in the fact that STE have significant contribution to economic development through the important concept of the job creation. Based on these understandings, private and public sectors are pouring a lot of efforts in creating innovative businesses and tourism development models worldwide. These efforts cannot be always measured by business criteria. The reason behind, is that tourism product is often intangible and secondary to the main commercial activities; therefore, it is difficult to prove its value on the market.

From the perspectives of entrepreneurship, tourism is seen as a different context in which entrepreneurial opportunities can be identified, sized and commercialized into a consumable tourism product. These opportunities are then transformed into business innovations based on nature, culture, heritage, traditions, religions, and myriad other venture initiatives in tourism. STE business innovation activities have been identified by different authors as the principal driver of local economy competitiveness, as well as key factor for any business survival (Van Auken et al., 2008). Small tourism enterprise business innovations enable STEs to bring new and / or improved products and services in the market and thus meet customers' needs better and fully, gain loyal customers, increase sales of products and services, substitute outdated products, increase income, improve market share, increase competitive advantage, conquer new market segments, improve performance, and positively affect the economic development of the local destination in which STEs operate. A small tourism enterprise is able to cope with the constant market pressure if it realizes reliable, balanced and high-standard operation in its business.

Regional development theory

Classical economic development theory (Dang, and Sui Pheng, 2015) has been applied by the central governments around the globe; the government is creating urban growth centres with capital-intensive developments. In accordance with this theory, the government makes decisions without local participation. The government largely invests in specific sectors or geographical poles, hoping that the benefits will spread throughout the economy. This development approach has become less effective, the reason is that the rest of the country relies on local conditions, regional assisting schemes, infrastructure (hard and soft), labour market dynamics, social capital and population availability. Also, it is argued that this type of regional development model is driven with subsidization and protectionism, seen as less competitive than locally driven economic models (Jackson, 2006). Under classical economic model umbrella, few dynamic sectors and geographical poles are developed, and then benefits start to be reaped throughout the other areas. The accent is on capital-intensive development, economies of scale, urban growth and technological advancement.

Uniform regional development pattern does not exist. The regions exhibit dynamic and declining regions without consistent core/periphery divide. This has dispersed the economic growth outside of the national core areas. Thus, there are regional differences in economic performance. The inductive theory for regional development (Blažek, J, and Uhlíř, D., 2011) explains that structural composition of

the economy is influencing the regional development, and that regional development relies mostly on local conditions, which not only push/pull regional performance but contribute to attracting the investments and to building of intra/interregional network. Some of the regions will perform better than the others based on specific comparative advantage as is energy availability, technologically advanced research and businesses, manufacturing base, tourism attractions etc.

Shifting responsibilities from central to the regional/local level of the government has been actively pursued around the globe, with intention to reduce regional economic differences. The implementation of this kind of policy requires effective regional and local governance system. Building constructive institutional capacity on the local level (local government and non-government institutions, business and non-profit organizations) has fueled local/regional economic development. Non-governmental institutions are critical for creating a broader environment in which small tourism enterprises operate and induce regional tourism development. Decentralization of decision-making process to lower government levels is a complicated process due to the number of different stakeholders involved, and complex nature of tourism-led development. Public sector leads tourism planning and development in a variety of ways, through different levels, agencies, and institutions. All these stakeholders often lack coordination and synergy in their activities. Also, some interested groups can influence government official's decisions to gain power or competitive advantage over the market rivals (Lew, Hall, Williams, 2014).

The context of regional tourism development

In order to understand economic dynamics of tourism development we should focus on sub-national areas and regions. Literature (Morgan, and Nauwelaers, 2003) suggests that regional level is the key to economic growth compared to all spatial levels. Sharpley, and Telfer (2014) looks at tourism region as a physical area precisely defined by a researcher or public body with relevance to the economic development of the overall region. According to Sharpley, and Telfer (2014), there are three types of regions: a priori regions - boundary defined by the public body (political units); a homogenous region with internal similarities; a functional region with high degree of internal networking and interaction.

There are several development models and planning approaches which can be applied towards regional development: innovation which stimulates and feeds development by commercializing new ideas; growth pole theory application with development poles as a locations that generate and spread effects by investment in highly innovative enterprises; spatial concentration of economic activities results in high level of agglomeration economies, characterized by strong production/service and marketing linkages within the local economy; clustering as a tool for competitive advantage and a model for inter/intra-linking within agglomeration economies; integrated regional development planning with focus on decentralization; territorial regional planning approach which incorporates local participation; endogenous development supported by economic development from inside the region, ex. new

start-ups, expansions etc.; exogenous development as a result of outside investment in the region, ex. new factory.

According to Wanhill (2002), the development model applied should improve competitiveness of the tourism economy; stimulate new business ventures, their diversification, quality, and profitability. Next, he identifies several regional strategies at the micro-economic level: improving small business access to finance by creation of loan funds and advice services; human capital investment with upgraded standards of training and education, which in turn multiplies knowledge and spreads innovation in the local economy; communication and distribution channels improvement by implementation of fully networked computerized reservation system which generates additional benefits to STEs, such as mail campaigns database, occupancy monitoring, information gathering on source markets, faster responding to market demands regarding pricing and packaging, and additional sales due to the word of mouth by returning satisfied customers.

Tourism led economic development

Tourism is one of the fastest growing, and world's largest industry. World Tourism Organization (WTO) points out "Today, the business volume of tourism equals or even surpasses that of oil exports, food products or automobiles. Tourism has become one of the major players in international commerce, and represents at the same time one of the main income sources for many developing countries...". Consider following tourism key facts: 10% of world GDP– direct, indirect and induced impacts; 1 in 10 world jobs is in tourism; US\$ 1.4 trillion in world exports; 7% of the world's exports; 30% of world services exports¹. The process of tourism entrepreneurship is seen as the path to enhance local economies in given environments: social, cultural, and physical. In the context of tourism entrepreneurship, Small Tourism Enterprise (STEs) has significant contribution towards new product development, innovative entrepreneurship and regional development. STEs face numerous business obstacles due to their managerial weaknesses, limited access to external expertise and finance, and institutional regulatory environments that promote barriers to the new entry and business growth. These obstacles can be overcome through various government initiatives: identifying the best practices, benchmarking, access to financial support and labor force skills development. Compared to specific tourism literature which addresses STEs issues in rural development, regional economic development literature is focusing on a broader horizon, to regional development strategies. Regional development strategy has shifted the focus from "one for all" approach to more customized approach based on the needs of different regions within the country. Hence, tourism can be selected as a growth pole. The growth pole can be economically marginal region, where government incentives, public and private investments are poured in the selected area, helping to build facilities and infrastructure (Speakman, Koivisto, 2013). The government either provides support for the local entrepreneurs or directly invests in

¹ <http://www2.unwto.org/content/why-tourism> (13/Noe/2017)

the area. The incentives and subsidies are attracting more investments in tourism related businesses and employment is growing. Creation of jobs brings other entrepreneurship opportunities, especially in the cultural and eco-tourism niches. After some time, development becomes self-sustaining and attracts critical mass of residential population. Large residential population attracts additional development, incentives are withdrawn and tourism benefits pass to the surrounding area. According to Vellas (2007) economic benefits of tourism can be seen in income generation, employment opportunities, positive influence on balance of payments, and encouraging investment and development climate. The destination uses tourism as an “invisible” export of tangible (food, souvenirs, retail sales, etc.) and intangible goods and services (sun, air, walking, accommodation, transportation, sightseeing, cultural sales receipts, etc.). Local entrepreneur economic success brings benefits to the local economy (Nolan, 2003). Local community and small tourism businesses can package local resources into attractive, desirable and marketable tourism product. Developing local entrepreneurship process will be the main challenge for the public policy makers. Small business creation is key vehicle for entrepreneurship process (Thurik, Wenekers, 2004). Based on previous assumptions, developing large-scale foreign investments in tourism sector is not viable solution for a developing country. The contribution to national income and employment is questionable, based on the economic leakage of profit outside the country, purchasing project material and employing foreign labor.

Importance of small business in tourism

As the OECD notes¹ small firms are particularly important for the net job growth. According to Drucker (1993) the growth of SME in the 1980s is a consequence of various factors, such as decentralization of large firms, transformation of the economy base from labor-intensive to knowledge-intensive, and reallocation of production and assembly operations to developing world for cheap labor. On the other hand, developed economies proceeded to service-based industry development, which in turn created numerous opportunities for small firm’s development in the fields of marketing, media, communications and leisure industries (Thomas, 2004). These changes affected not only commercial environment, but, also, societal landscape “cultural shift” towards the entrepreneurship, regional development and consumer expectations. Therefore, an increasing number of individuals decide to be self-employed and are pursuing business opportunities. Also, changes are evident in the travel, tourism and leisure sector. The types of tourism products grow rapidly, following expansion of the small tourism firms covering market niches. Small businesses play vital role in expanding overall economic development in a destination. Small businesses are more flexible to the market changes, they help in creating diversified economic structure, build healthy competition environment, stimulate innovation, improve quality of the products and

¹ OECD: Small businesses, job creation and growth: facts, obstacles and best practices. <https://www.oecd.org/cfe/smes/2090740.pdf> (13.11.2017)

services, and foster entrepreneurship culture. Tourism is mainly composed of small businesses. In OECD countries, 60-90% of companies in tourism sector employ less than nine employees (OECD, 2014). As agents of economic development, tourism small businesses are cornerstone of the tourism economy. According to Turner and Sears (2013) tourism creates significant number of jobs (employment). The employment can be direct (hotels, restaurants, night clubs, travel agencies), indirect employment in businesses that benefit from tourism spending (retail, construction), or induced employment resulting from re-spending of local residents' money through the tourism multiplier effect (Horváth, Frechtling, 1999). Direct employment can be observed through new venture creation or expanding existing ones. The process of new venture creation is process of entrepreneurship. As such, an individual brings changes to the economic structure through innovative responses to tourism market needs. The motivated entrepreneur, sizes the market opportunity by establishing the company, gathers resources, starts servicing market needs, but is worth to mention that in the process bears risk of the venture failure and reward opportunities if venture succeeds.

Policy areas, opportunities and recommendations

Entrepreneurship process is location-specific, local development measures affect entrepreneurship and opportunities, and government policies in place spur or create barriers to entrepreneurship initiatives. Five policy areas can be identified for encouraging entrepreneurship activity:

- culture/climate of entrepreneurship development
- education and training availabilities
- workforce and skills development
- financing alternatives, and
- leveraging bureaucratic barriers

Policy areas, possible opportunities and policy recommendations are summarized in the Table 1.1

Table 1.1 Policy areas, opportunities and recommendations

Policy area	Opportunities	Recommendations
Culture of entrepreneurship	Parents approval of venturing	Political agenda - entrepreneurship is high priority
	Youth desire to start a business is limited	Entrepreneurship awards at all levels

	<p>Senior managers hesitate to start a business</p> <p>Business start-ups out of need instead of entrepreneurial drive</p>	<p>Entrepreneurs are appointed into positions dealing with entrepreneurship policy</p> <p>Entrepreneurship promotion involvement – Businesses, Trade Unions, Civic Organizations, Church</p>
Education and training	<p>Education for wage than for self-employment</p> <p>Basic education lacks entrepreneurship material</p> <p>Few entrepreneurship courses</p>	<p>Entrepreneurial spirit development from low to high educational levels</p> <p>Integrate entrepreneurship curricula into education</p> <p>Practical entrepreneurship experience incorporation into the curriculum</p>
Workforce and skills development	<p>Skills shortage</p> <p>Technical skills shortage</p> <p>Technology and innovation skills shortage</p>	<p>The Employment Relations Act should allow interns to gain managerial experience. Interns should be encouraged to start their own business after graduation</p>

		Building mechanisms and networks for technical know-how transfer from research community to start-ups and businesses
		Promoting continuous education and search for improvement in products and services
Financing	Low savings rates	Support and build access to financing, especially in rural areas
	Loans collateral necessity	
	Bankruptcy risks and high debts	Bankruptcy law change, limit the personal liability level
Bureaucratic barriers	High compliance costs –money and time requirements	Decentralizing business registration
		Improving commercial justice system
		Establishing National Regulatory Review
		Compliance costs mitigation

The key factors influencing the success of STEs are presented in a model by Haber and Reichel (2005) summarizing the following theoretical approaches: the environmental milieu approach, which affects venture decisions dependent of location; the institutional support approach, affects the performance with institutional support mechanisms such as availability of external financing and access to governmental tourism incubator's services; the entrepreneurial human capital approach, focusses on education, experience, and skills of the entrepreneur, as on their personal traits as a prerequisites for venture performance; and the venture features approach, focusses on the relationship between the number of services provided and venture performance. Based on the previous assumptions, we can say that attractiveness of the location, defined by tourism infrastructure, scenery and excursions- influences positively on the performance of STEs; entrepreneur's personal traits, family background, education and experience, managerial skills- influence positively on the performance of STEs; management skills are the main factor which influence positively on the performance of STEs. Managerial skills are so important for the performance that incubators mission should be to promote managerial competencies. Haber and Reichel (2005) conclude that customized regional business and management training tools are necessary to develop resident-responsive, community based tourism development.

Summary

We can safely say that development and facilitation of regional/local entrepreneurship is a major challenge to the tourism-policy makers who try to integrate sustainable tourism within local development. We are aware that STEs are the key vehicles for entrepreneurship in the development areas. In the business literature, small business research and entrepreneurship research are often intertwined. According to Lordkipanidze (2005), growing supply of potential entrepreneurs facilitates the quantity of start-ups. It is important for government officials to understand where entrepreneurship comes from and what factors are influencing it. Encouraging entrepreneurship is responsibility of local municipalities and local community, as they best know their needs and problems. A government influences the entrepreneurship process through different policy measures: specific measures directly influence entrepreneurship; generic measures have indirect impact on entrepreneurship. De-regulation of entry and privatization or collectivization of services and utilities create a myriad of business opportunities; resources and abilities can be influenced by education and training which promote individual skills and knowledge; by developing venture capital market and capital availability; and by making information available through consulting services. Individual preferences for entrepreneurship are harder to influence, the reason is they are culture determined and difficult for modification. Fostering entrepreneurial culture through educational system and media coverage is one way of addressing this problem. In addition, fiscal incentives, general subsidies, labor market (de)-regulation and bankruptcy laws helps entrepreneur to compare net rewards and risks of acting out as a business owner or to accept wage employment.

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