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THE RELATIONSHIP BETWEEN SMALL AND MEDIUM-SIZED ENTERPRISES, TOURISM AND ECONOMIC DEVELOPMENT

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Abstract

Tourism is the world's largest industry and makes a major contribution to the economies of most developed and developing countries. Tourism as an important socio-economical phenomenon is characterized with distinctly largeness and dynamic development that results with many positive direct as well as indirect economical effects. That is a measure for increasing of possibilities of encouragement of the total economical development through tourism development. Tourism generates income from consumption of goods and services by tourists as well as taxes on businesses in the tourism industry, provides employment in services related to tourism, but also creates jobs in the tertiary sector, generates growth of primary and secondary sectors of the industry as result of multiplicative effect. In this context especially are important small and medium tourism enterprises which dominate in the tourism destinations according to their number, originating a variety of benefits for the tourism destinations by providing direct contact with tourists and by encouraging tourist for spending in a local community.

The aim of this paper is to point out the importance of small and medium –sized enterprises in general and especially in the field of tourism for increasing economic development in the national economy with particular reference on the territory of the Republic of Macedonia. In this paper, first will be analyzed the term small and medium - sized enterprises in general and then will be explained their application in the field of tourism with highlighting of their strategic advantages for the tourism destinations and overall economic development of the entire national economy. Finally, will be analyzed the role played by SMEs for the economic development of the Republic of Macedonia with a special emphasis on the measures and actions which have to be taken in the future by the competent authorities for further stimulation of their development.

Key words: small and medium-sized enterprises, tourism, economic development, Republic of Macedonia

1. Introduction

Tourism is the world's largest industry and makes a major contribution to the economies of most developed and developing countries. Tourism as an important socio-economical phenomenon that characterizes with distinctly largeness and dynamic development, results with many positive direct as well as indirect economical effects. That is a measure for increasing of possibilities of encouragement of the total economical development through tourism development. Tourism generates income from consumption of goods and services by tourists as well as from taxes of the tourism industry, provides employment in services related to tourism, also creates jobs in the tertiary sector and generates growth of primary and secondary sectors of the industry as result of multiplicative effect. In this context especially are important small and medium tourism enterprises which dominate in the tourist destinations according to their number, originating a variety of benefits for the tourism destinations by providing direct contact with tourists and by encouraging tourists for spending in a local community.

2. Defining small and medium enterprises

There is no universally agreed definition of an SME across all academic disciplines. The term SME covers a wide range of definitions and measures varying from country to country and between the sources reporting SME statistics. Some of the commonly used criteria are the number of employees, total net assets, sales, investment level, shareholders funds and even paid up capital. Thus, depending on the criterion selected, the same firm can be classified as “small” under one criterion and as “medium” under another criterion. As such, broad comparisons of SMEs across different countries may not be entirely appropriate because of the varied accepted operational definitions. As there is no uniform definition of the SMEs in the global economy, different countries have defined SMEs in different ways. However, the most common definitional basis used is employment, and here again there is variation in defining the upper and lower size limit of an SME. A large number of sources define an SME to have a cut-off range of 0-250 employees.

Peterson et al. (Sultan, 2007) explain that both quantitative and qualitative measures are used in defining the SMEs. These definitions vary according to the geographic area and the purpose of the study. Quantitative measures are the most popular tools to define the SMEs such as the number of employees and the annual turnover.

Gunasekaran et al. (Sultan, 2007) suggest that the SMEs need to be defined within the context of the country in which they operate,

as typically, the concept varies by the change of country.

Story (Sultan, 2007) defines the SMEs as follows: (a) enterprises with a relatively small share of their market; (b) managed by owners or part-owners in a personalized way, and not through the medium of a formalized management structure; and (c) acting as separate entities, in the sense of not forming part of large enterprise or group.

The European Commission defines small, medium and large enterprises, according to the following criteria: staff headcount, annual turnover and annual balance sheet (figure 1 and table 1). The European Commission adopted this SMEs definition on May 6, 2003 which entered into force on January 1, 2005 and is applied to all policies, programs and measures that the Commission operates for SMES. This definition is as follows:”The category of micro, small and medium-sized enterprises (SMEs) consists of enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro.

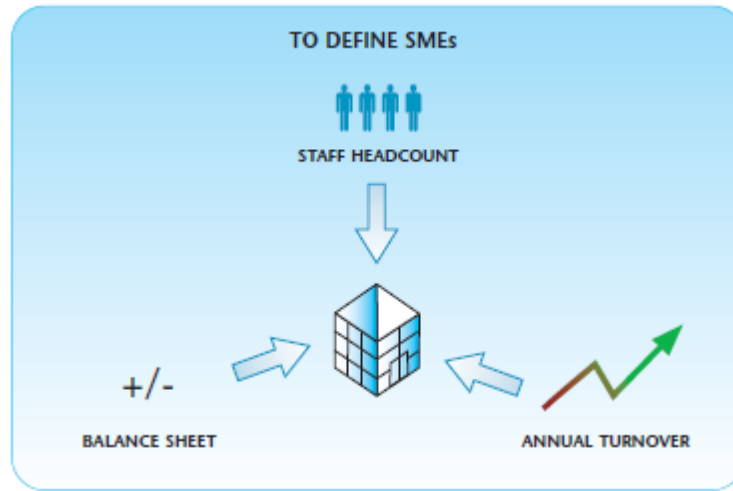
Within this category:

Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro.

Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro.”

(Extract of Article 2 of the Annex of Recommendation 2003/361/EC).

Figure 1



Source: European Commission. (2003). The New SME Definition – User Guide and Model Declaration, Enterprise and Industry Publications

Table 1
 SME thresholds

Category enterprise	Headcount: Annual Work Unit (AWU)	Annual turnover or	Annual balance sheet total
Medium-sized	< 250	≤ € 50 million	≤ € 43 million
Small	< 50	≤ € 10 million	≤ € 10 million
Micro	< 10	≤ € 2 million	≤ € 2 million

Source: European Commission. (2003). The New SME Definition – User Guide and Model Declaration, Enterprise and Industry Publications

3. The contribution of small and medium enterprises

SMEs are the engine of the national economy playing a very important role in the overall economic development of each country. These enterprises are also known as foundation enterprises. SMEs are a major source of technological innovation and development of new products. Moreover, SMEs, with their high turnover and adaptability, play a vital role in resolving regional and sector imbalances in a country's economy. Furthermore, SMEs' easy access and exit of the markets renders economies more flexible and competitive.

Compared to a large enterprises, SMEs employ more workers per unit of capital, contribute to total savings and equal income distribution in the economy, have formidable impact on regional economic development, serve as "training platform" for upgrading and developing the skills of industrial workers and entrepreneurs, contribute significantly to forward and backward linkages and finally play an important complementary role to large firms in the economically diverse sectors.

Tolento (Sultan, 2007) summarizes some of the potential economic and social benefits of the SMEs to their capacity as follows: (a) create jobs at low cost of capital; (b) contribute positively to the Gross Domestic Product (GDP); (c) provide an opportunity to expand the entrepreneurial base; (d) provide the required flexibility to adapt to market changes; (e) provide support to large scale enterprises; (f) enter into market niches which are not profitable for larger enterprises; and (g) contribute to development policies that are more oriented

4. Small and medium tourism enterprises

Tourism destinations are traditionally dominated by small and medium-sized tourism enterprises which provide wide range of products to the tourists such as accommodation, catering, transportation, attractions and activities and thus contribute significantly to the range, variety, authenticity and quality of their positive 'tourism experience'. SMTEs originate a variety of benefits for the tourism destinations by providing direct contact with tourists and by encouraging tourist for spending in local community, thus stimulating the multiplier effects.

In the field of tourism also is made an attempt by different authors to define the small and medium enterprises. In this area, the views and definitions are different.

Thus, according to Breen (Breen et al., 2005) small and medium tourism enterprises comprise all businesses, which operate in the tourism industry and employ up to 100 employees and include sole operators not employing any staff. Specifically, micro businesses are those that employ between one and four workers, small businesses employ between five and 19 employees and medium businesses employ between 20 and 100 employees.

towards decentralization and rural development.

Levy et al. (1999) emphasize the extreme importance of the existence of SMEs and their performance for the economic development of most of the less-developed countries. SMEs also play a crucial role in the developing countries because of their contributions to poverty reduction, export growth of manufactured products and development of entrepreneurship, manufacturing industry and rural economy.

Moutinho (Buhalis, 1996) says that when hotels are classified, the number of beds criterion can be applied.

According to Poon (Buhalis, 1996) most authors seem to agree that accommodation establishments with less than 50 rooms as well as hotels and travel agencies employing less than 10 people are small. In addition, he lists a wide range of qualitative criteria that can be used to determine the correct size of tourism enterprises, such as the organizational structure, participation in hotel consortia or chains, turnover, responsibility distribution in decision making, financial strength, operational procedures, recruitment and training practices, decision making process, entrepreneurial involvement and control, integration level, family participation in running the organization, internalization of operation, marketing functions and managerial experience.

According to Beaver (Beaver, 2005), defining the SMEs in the field of tourism should use the same definition for SMEs adopted from the European Commission but now using the acronym SMTE meaning either small and medium sized tourism enterprise or small and medium sized travel enterprise.

Small and medium tourism enterprises have numerous strategic advantages over the

large enterprises. These advantages are presented in the following table.

Table 2
Strategic advantages of SMTEs

Entrepreneur's motivation	Determination to succeed, backed by hard work and personal, family, social sacrifices.
Market niche advantages	Market niches often ignored by large enterprises, often growth changes for small businesses. Small businesses identify customer's wishes and produce tailor-made niche products for specific segments through customization
Personal relationship with enterprise stakeholders	Personal relationship with customers, suppliers, distributors and employees can be a main source of competitive advantage as favorable terms and conditions may be negotiated and support is offered at difficult times.
Family involvement	Family involvement ensures human resources used flexibly to meet demand variations while ensuring commitment and trust.
Flexibility and recreation	SMTEs are flexible to respond to client requirements and changes to the external environment. Due to a generally flat hierarchy they can decide quickly and react immediately to market changes.
Continuity	The continuity of family businesses ensures strong social values.

Source: Buhalis, D. et al. (2011). *Tourism Management Dynamics – Trends, Management and Tools*, New York, Routledge

5. Small and medium enterprises in the Republic of Macedonia

The number of registered enterprises in Macedonia notes steady growth. In 2013, 71 290 enterprises in Macedonia are active and represent 69.9% of the total number of registered enterprises. The structure's data for active business entities by the number of employees indicates that the largest share of 85% belongs to the enterprises with 1-9 employees. Then follow businesses without employees or entities with an unspecified number of employees (excluding data for employees) with 6.2%. On the third place with share of 4.2% are enterprises with 10-19 employees, followed by subjects with 20-49 employees whose share is 2.5%. Next are

entities with 50-249 employees with 1.8% share and only 0.2% of active business entities have over 250 employees. Specifically, the number of active small businesses in Macedonia in 2013 is 69 790 or 98%, the number of active medium enterprises is 1291 or 1.8%, and the number of active large enterprises is 209 or 0.2% (table 3 and figure 2). Actually, SMEs represent 99.8 % of the total number of enterprises in Macedonia in 2013 and employ 77% of the total number of employees. As we can see, the most of the registered enterprises in Macedonia belong in the category of small and medium

enterprises. SMEs are crucial for the economic development of the Republic of

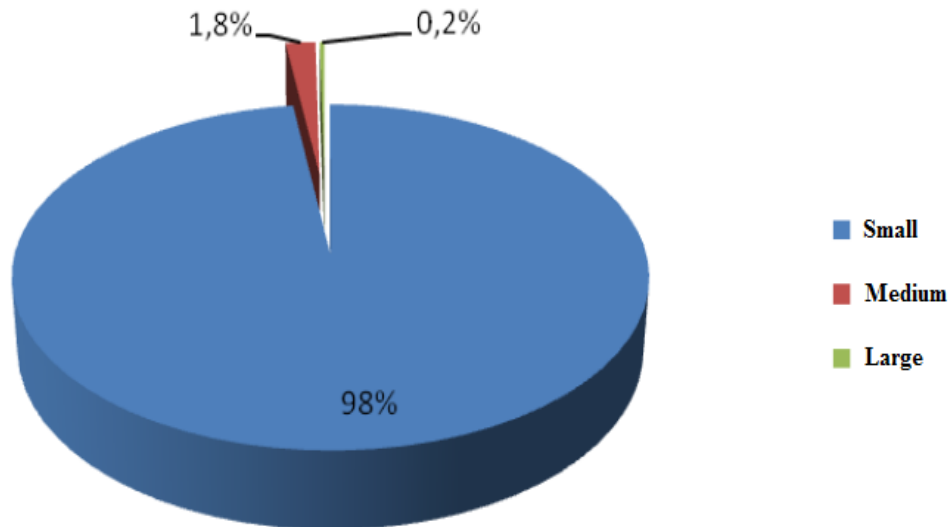
Macedonia and represent the main driver of the economic activity in the country.

Table 3
Active enterprises in Macedonia by size, by year

Enterprises	2009	2010	2011	2012	2013
Micro	38 107	39 999	46 322	53 117	49 549
Small	31 873	34 702	25 984	20 341	20 241
Medium	533	584	607	631	1291
Large	197	212	205	335	209
Total	70 710	75 497	73 118	74 424	71 290

Source: State Statistical Office of the Republic of Macedonia

Figure 2
Percentage of active enterprises in Macedonia in 2013

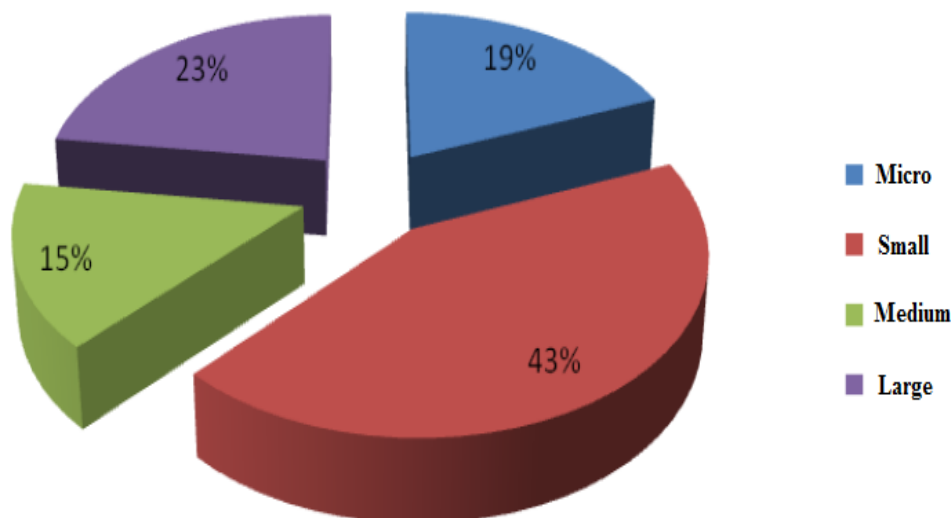


Source: Агенција за поддршка на претприемништвото на Република Македонија. (2014). Годишен извештај за секторот на МСП за 2013 година

The number of employees in small, medium and large enterprises in 2013 in Macedonia is 375 087. 62% of them (235 624) are employed in micro and small enterprises, 15% (53 923) in medium enterprises and

23% (86 620) in large enterprises. The importance of the SME sector is reflected by the fact that it employs over 3/4 or almost 4/5 of the total work force in Macedonia that is 77% (figure 3).

Figure 3
Percentage distribution of employees per enterprises in 2013



Source: Агенција за поддршка на претприемништвото на Република Македонија. (2014). Годишен извештај за секторот на МСП за 2013 година

Concerning to the profit realized strictly by small and medium enterprises, it can be concluded that they contributed with 67.3%

in the total profit realized by enterprises in Macedonia in 2013 (table 4).

Table 4

Profit and loss realized in enterprises in Macedonia from 2010 to 2013

Financial indicators	Micro enterprises	Small enterprises	Medium enterprises	Large enterprises	Total
2013 Profit	3 017 931 807.00	37 428 300 109.00	14 820 277 824.00	26 799 189 244.00	82 065 698 984.00
2013 Loss	5 720 494 990.00	7 838 610 070.00	3 063 897 305.00	8 032 028 336.00	24 655 030 701.00
2012 Profit	2 806 975 574.00	35 259 162 456.00	13 269 773 403.00	24 767 180 872.00	76 103 092 305.00
2012 Loss	5 836 628 300.00	9 490 136 948.00	2 921 460 389.00	7 431 756 955.00	25 679 982 592.00
2011 Profit	2 826 412 769.00	35 141 403 669.00	12 670 798 762.00	30 272 840 633.00	80 911 455 833.00
2011 Loss	5 382 652 313.00	8 874 101 559.00	4 472 690 695.00	10 833 311 908.00	29 562 756 475.56
2010 Profit	3 235 932 180.00	32 453 256 541.00	9 631 188 200.00	26 903 931 107.00	72 224 308 028.00
2010 Loss	5 498 412 984.00	7 863 364 325.00	4 787 914 412.00	6 872 814 818.00	25 022 506 539.50

Source: Агенција за поддршка на претприемништвото на Република Македонија. (2014). Годишен извештај за секторот на МСП за 2013 година

6. Small and medium tourism enterprises in the Republic of Macedonia

Tourism already occupies a special place in the economy of the Republic of Macedonia. The number of foreign tourists in Macedonia

in the last 8 years is doubled and makes 98% of the total number of tourists who is increased for 40%. In 2013 in Macedonia in the sector of tourism were employed 8 500 people, representing 1.2 % of the total

employment in the country. Along with the activities that are related to tourism, in Macedonia were employed 31 000 people which is already 4.5 percent of the total. The table 5 shows the number of active enterprises in sector Accommodation and food service activities for 2013 in the Republic of Macedonia. This sector includes: Accommodation (hotels and similar accommodation; holiday and other

number of registered persons who worked in 2013. The share of tourism in GDP in 2013 was 1.4%.

short-stay accommodation; other accommodation) and Food and beverage service activities (restaurants and mobile food service activities; event catering and other food service activities; beverage service activities).

Table 5

Number of active business entities by sectors of activity according to the National Classification of Activities NKD Rev.2 and by number of persons employed, 2013

Sector of activity	Total	%	Enterprise size classes by number of employees					
			0 ¹⁾	0-9	10-19	20-49	50-249	250 +
Total	71 290	100.0	4 415	60 599	2 989	1 787	1 291	209
Accommodation and food service activities	4 482	6.3	138	3 918	300	102	23	1

¹⁾ Including business entities with unascertained number of persons employed

Source: State Statistical Office of the Republic of Macedonia

Small and medium enterprises in the sector accommodation and food service activities employ the largest number of employees in this sector, realize most of the turnover in this sector and create most of the value added in this sector. In the sector accommodation and food service activities in 2013 were employed 19 233 persons

which represents 5.7% of the total number of employees in Macedonia in 2013 which number is 335 677. 73.18% of them (14 074) were employed in micro enterprises of this sector, 16.62% (3197) in small enterprises, 8.72% (1678) in medium enterprises, and only 1.48% in large enterprises (table 6).

Table 6

Basic structural business indicators for enterprises, by class of number of employees by year, in accommodation and food service activities in Macedonia

	2009	2010	2011	2012	2013
Total	15 501	16 881	17 141	18 515	19 233
0-9 employees	8 893	9 823	9 770	10 141	10 247
10-19 employees	2 543	3 137	3 483	3 649	3 827
20-49 employees	1 875	2 159	1 850	2 379	3 197
50-249 employees	1 868	1 200	1 471	2 039	1 678
250 and more employees	322	562	567	307	284

Source: State Statistical Office of the Republic of Macedonia

Small and medium enterprises in the sector accommodation and food service activities realized 96.87% of the total turnover in this sector in 2013 and generated 93.73% of the total value added. Of the other hand, the

large enterprises realized only 3.13% of the turnover and generated only 6.27% of the total value added in the sector accommodation and food service activities (table 7 and 8).

Table 7
 Turnover by size class of number of employees, 2013 (in million denars)

Sector of activity	Total	Enterprise size classes by number of employees				
		0-9	10-19	20-49	50-249	250 +
Accommodation and food service activities	13 096	4 879	2 933	3 116	1 758	410

Source: State Statistical Office of the Republic of Macedonia

Table 8
 Value added at factor cost, by size class of number of employees, 2013 (in million denars)

Sector of activity	Total	Enterprise size classes by number of employees				
		0-9	10-19	20-49	50-249	250 +
Accommodation and food service activities	4 707	1 680	916	1 016	800	295

Source: State Statistical Office of the Republic of Macedonia

Based on the data presented for the participation of small and medium tourism enterprises in the employment of the people, in the realizing of turnover and in the creation of value added, it can be concluded that these companies have huge importance for the economy and for economic development of the Republic of Macedonia. Therefore, it is necessary to take measures and actions for further development of these enterprises such as: introducing incentives to encourage investment in tourism facilities, investment in tourism product (in many types of tourism), education of employees in the field of tourism (with particular education regarding the application process

for obtaining available funds from IPARD), encouraging others branches that stimulate tourism and vice versa, and professional (university) education for managers and other employee in the tourism that will ensure the required level of quality in offering tourism and catering services.

7. Conclusion

The number of registered active enterprises in Macedonia notes steady growth. Most of them belong to the category of small and medium enterprises. This category is particularly important for the economy and represents the main driver of the economic

activity in the country. Seeing the fact that small and medium enterprises in the country in general and in the tourism sector especially employs most of the active working population, have the largest share in the realizing of turnover and in the generating of value added, it can be concluded that these enterprises have great importance for the economy and for economic development of the Republic of Macedonia. Therefore, it is necessary to take measures and actions for further development of these enterprises such as: introducing incentives to encourage investment in tourism facilities, investment in tourism product (in many types of tourism), education of employees in the field of tourism (with particular education regarding the application process for obtaining available funds from IPARD), encouraging others branches that stimulate tourism and vice versa, and professional (university) education for managers and other employee in the tourism that will ensure the required level of quality in offering tourism and catering services.

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