

Tourism Business Management: Challenges And Incertitudines

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Abstract: *Globalization brings pressure on tourism businesses who now must develop in a more complex environment. In this framework, there is a need for a new vision, new tools for businesses to manage various aspects of the economic life. The companies must consider some changes in the way they operate, to better understand all stakeholders, the local communities and the influences from the world economy.*

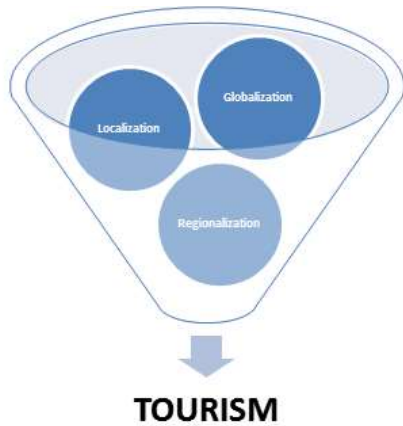
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JEL Classification: L83, M10, Z32

1. Introduction

Tourism sector is nothing but a reflection of globalization-localization polarization process that occurs in all socio-economic systems and in all its component structures. Globalization process is increasingly present in tourism and travel industry, raising the number of multinational and transnational companies which cover most of the trading volume in the field (e.g. travel, accommodation, mass tourism).

Figure 1 Tourism links with globalization, regionalization and localization



Source: authors' contribution

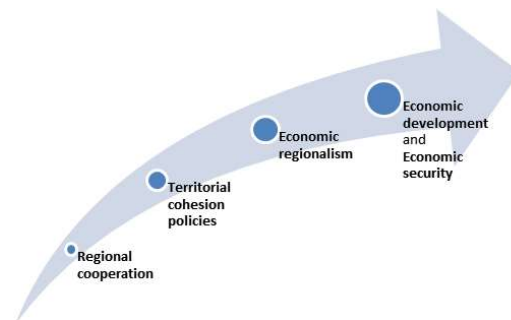
In contrast, niche operators offer products, services, unique experiences for tourists and tourists groups with special preferences and desires. These operators respond to the globalization process through location, developing unique, unusual, nature and culture linked experiences, addressing to mature tourists with a high educational level, extensive travel experience, concerned about the environment, interested in social and cultural traditions of the visited places.

Globalization has forced more and more regions and enterprises to adapt to the

market, the pressures becoming greater, and thus regional and local economies have been forced to restructure. On the other hand, in tourism, increasingly distinction between mass tourism, or in other words, globalized tourism, and community-based tourism in which the benefits accrue to community and the sustainability of the region are not affected in the long run is made. In the recent years, trends and characteristics of tourism development and the latest theories of tourism development emphasize that community-based tourism will get, in the coming years, an important counterweight to mass tourism.

However, we are witnessing an international regionalism as a form of globalization. Economic regionalism can be seen in two perspectives, de facto and de jure, it is not a government driven policy, but the level regionalism represents an institutional driven national and sub-national cooperation, ranging from business committees to private sector developed networks (Hall, 2001). Regional cooperation, at international level, has become increasingly obvious in recent years, and in Europe, the territorial cohesion policies have a major responsibility.

Figure 2 Factors supporting regionalization



Source: authors' contribution

More evidences stress the need to return to the location, but history has shown that the “extreme game” did not lead to progress. Globalization process yields if it is accompanied by a complementary process of regionalization, aiming to complete the first one when some global development trends fail to reach the purpose.

The process of tourism globalization is felt both on tourism demand and on supply side, although in the case of demand is more pronounced. Tourism demand is the first to react, showing a clear trend to globalization, otherwise proved by the diversification of the preferences and tastes of consumers and supported by other aspects of globalization, namely access to information and services, expansion of the Internet, reduced political barriers and international travel visa barriers decrease, etc. Although currently, international tourist flows still remain mostly regionalized and concentrated on three continents, Europe, North America and Asia-Pacific region, there is obviously an increase in international tourism demand, but also of the volume of inter-regional tourist flows.

In terms of tourism supply, competition has become globalized, being necessary for businesses and tourism operators to be more competitive in order to survive on the market. Under the pressure of globalization, the competition will cover a new path, tourist destinations being forced to change the conditions of production and marketing strategies.

Figure 3: Globalization in terms of tourism supply and demand



Source: authors' contribution

2. Tourism as driver of development

Tourism industry should be regarded as important for economic recovery, domestic tourism development stimulating consumption and economic activity growth, with indirect impact on all productive sectors (Jucan and Jucan, 2013). Tourism represents a “tool” for growth, not a full policy, and in the European Union the tourism policy is clearly formulated since 2007 and promoted by the European Commission (Estol and Font, 2016). The experience of developed countries shows that, based on innovation, restoration, recognition and participation processes, tourism can become a success factor in supporting sustainable development, even if, apparently, the potential does not exist or it is considered unimportant. Tourism development should be planned taking into account the wider economic framework and

the overall objective of sustainable development (Telfer, 2002), so that the tourism activity to turn into a sustainable one, responsive to the needs of tourists and host regions, in the spirit of resources conservation for future generations (Surugiu, 2008). Bramwell and Lane (1993, cited by Liu, 2003) consider sustainability as a positive approach aimed at reducing tensions and misunderstandings created by complex interactions between the tourism industry, tourists, the environment and host communities, so that long-term ability and natural and human resources to be maintained.

European Union stresses the need to “promote a more business-friendly legislative and regulatory climate” as a measure to promote growth and development through tourism. In the absence of a regulatory framework is likely that region with a lower level of development to be disadvantaged, as competition between tourist destinations becomes more powerful, especially to attract investment in tourism and to obtain profit, being likely eventually to involve the emergence of new socio-spatial patterns of inequalities within and between regions (Bianchi, 2002).

Tourism represents a major global industry and alternatives to mass tourism are emerging, such as ecotourism, which can support the local communities’ development, but policies, strategies, processes, business culture, stakeholders working together and so on, are necessary to become an important alternate type of tourism (Felicetti, 2015).

The public-private partnership and stakeholders’ interaction represent an important model for managing tourist destinations, all partners wishing to benefit from sharing resources and objectives, but for a correct partnership management the identification

of critical success factors is of great importance (Shkira and Gabeta, 2012).

Positive or negative impact may appear from tourism, underlying the importance of the planning, development and management, and to reach to the sector’s full potential the prioritization of this activity and developing a strategic agenda are important, in a framework where individual countries work in cooperation to make a more sustainable tourism (Athanasopoulou, 2013).

Still, there are some opinions of critics of tourism activity who question whether the overall balance of impacts is positive, mainly regarding large holiday complexes and international hotel chains, even if there is an evidence of the tourism beneficial impact and companies’ good practices, for tourism companies being important to find out how to adapt the business practices for long-term commercial sense and to deliver greater benefits to local economies (Ashley et al, 2007).

3. Changes in the management of Romanian tourism business: risks associated with business activity

In the last 26 years, Romania has made considerable progress in the development of public and private institutions and the transition to a market economy. Joining the European Union (EU) in 2007 represented a driving force for the reform and modernization of the Romanian business environment (World Bank, 2016).

According to the Travel & Tourism Competitiveness Report 2015, Romania in 2015 was on 66th place out of 141 countries in terms of competitiveness index, with a value of 3.78 (1 - minimum, 7 - maximum) registering above average levels for health and

hygiene (5.94), safety and security (5.42), the infrastructure of tourism services (5.01), price competitiveness (4.89).

Figure 4: Travel and tourism industry competitiveness index, Romania



Source: World Economic Forum (2015), *The Travel & Tourism Competitiveness Report 2015 - Growth through Shocks*, Geneva

Romanian economic operators in the tourism sector are forced to operate in a turbulent and dynamic economic environment, in which to the internal competition is added a stronger international one, coming from some companies that offer good quality services at competitive prices in countries such as Bulgaria, Turkey, and Greece.

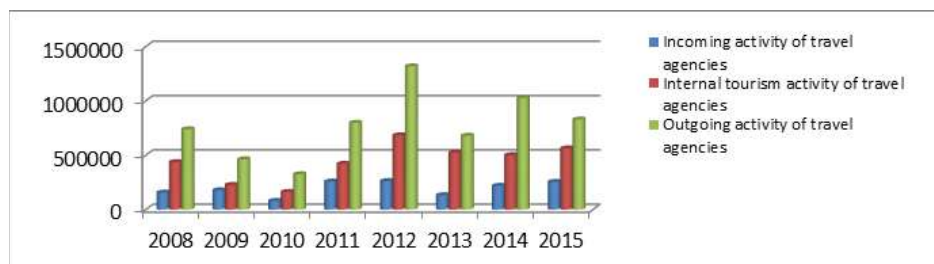
Many of the specific tourist material

bases have deteriorated in the transition period, due to a lack of investment, a delayed privatization, or even failed in some cases. Seaside accommodation units lost their brilliance and ability to provide quality accommodation, economic operators eroding the competitive position, if we compare them with accommodation units from neighboring countries.

Despite spa potential that Romania holds with mineral and thermal waters, with mud, mofettes, temperate climate (ionized air and tonic moderate or gentle bioclimate), saline water of the Black Sea, the beach and air ionization specific to coastline, salt mines, etc., many of health facilities deteriorated. The mountainous area has attracted most investments through the construction of hotels, guesthouses and villas, although in certain mountain areas losses were recorded or some damages to tourism infrastructure.

Thus, Romania of the last two decades has become an outgoing tourism country in which the foreign departures represent more than 50% of total activity conducted by travel agencies.

Figure 5: Tourism actions organized by travel agencies, by tourism activities (%)

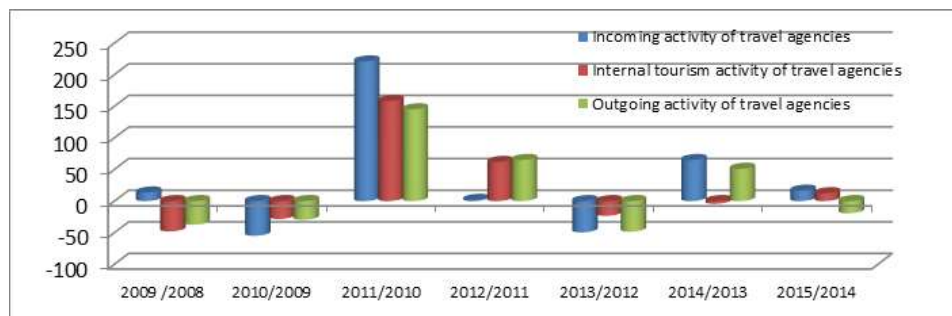


Source: <http://statistici.insse.ro/shop>, accessed on 13.07.2016.

Romanian tourism offer continues to remain at a quality-price level yet uncompetitive compared with main direct-competitive destinations, although in the past years some progress has been recorded in terms of the number of foreign tourist arrivals in

acomodation units. Travel agencies intensified their incoming activity, so in the last two years, it has increased by 65% and 16.5% respectively. Internal tourism activity of travel agencies fluctuated, with an increase of 12.4% in 2015 compared to the previous year.

Figure 6: Evolution of tourism actions organized by travel agencies, by tourism activities (%)



Source: <http://statistici.insse.ro/shop>, accessed on 13.07.2016.

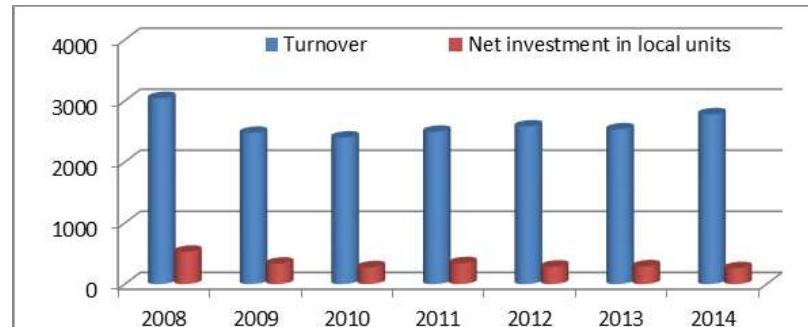
The beginning of the economic crisis, which significantly reduced family budgets and thus the travel budgets, have affected the tourism businesses. Only businesses that have managed to adapt to market requirements and came with attractive promotional offers during the period 2009 - 2010 have survived to an unstable and turbulent market environment. The development of promotional offers meant not only reducing the tariffs but also the fees charged by the travel agencies, and the profit margin was reduced by 15-25% in 2010 compared to 2009, although for certain client segments the turnover registered increases (Iftime and Podina, 2013). The year of 2010 was difficult for travel agencies in Romania, as their sales declined by 15%, and

about 10% of travel agencies, members of the National Association of Travel Agencies in Romania, have been closed.

To cope with a reduced tourism demand, travel agencies had to adapt by allocating larger budgets for advertising and by renegotiating tariffs of charter flights to Spain, Turkey and Greece, so they can meet the consumer's needs through attractive prices (Iftime and Podina, 2013).

Economic activity of hotels and restaurants declined significantly during the period 2008 - 2009, in which the turnover fell by 18.7% and 3.1% respectively, while net investment contraction was deeper by 36.9% and 17.4% respectively.

Figure 7: Turnover and net investments in hotels and restaurants (million euro)



Source: <http://statistici.inse.ro/shop>, accessed on 13.07.2016.

Price competitiveness index value indicates that Romania is an attractive country for foreign tourists especially from the perspective of prices for accommodation, ticket taxes, and airport charges. According to the Travel & Tourism Competitiveness Report

2015, Romania was placed in 2015 on the 54th place out of 141 countries in terms of price competitiveness, with a value of 4.9 (1 – minimum level, 7 – maximum level), recording competitive values particularly in terms of hotel price index.

Table 1: Prices competitiveness

Indicator	Value	Position/141
Prices competitiveness	4.9	54
Ticket taxes, airport charges (0-100 best)	81.2	58
Hotel price index (US \$)	88.9	9
Purchasing power parity	0.5	66
Fuel price levels (US \$ cents / litre)	170	97

Source: World Economic Forum (2015), The Travel & Tourism Competitiveness Report 2015 - Growth through Shocks, Geneva.

4. Romanian tourism industry: risks and uncertainties

The extent to which the government prioritizes the travel and tourism industry has an impact on its competitiveness. A government involved in supporting tourism, which makes it clear that this is a sector of major interest to the country, send an important message for investors, since itself is an investor concerned to support various development projects, but also involved in coordinating the actors and necessary resources.

According to the Travel & Tourism Competitiveness Report 2015, Romania is placed in 2015 on the 88th place out of 141 countries in terms of prioritization of travel and tourism industry, with an index value of 4.3 (1 – minimum level, 7 – maximum level), well above the world average. In Romania, the government does not play an important role regarding national marketing campaigns and in attracting tourists through them. Regarding the assessment of the brand strategy of the country, Romania seems to

occupy a good position internationally, being on 32nd position out of 141 countries.

All these factors mentioned above put their mark on economic operators in general, but also on those who work in the tourism industry. Thus, the lack of labor force, loss of local values, and increased crime is putting pressure on tourism entrepreneurs, which are also under economic pressures, due to the fact that the country went through a long transition, and recovery and growth period

was too short, being affected by the economic crisis from 2008 - 2010. While Romanian tourism industry has grown over the last few years, both in terms of tourist arrivals, and in terms of receipts, the specific structural problems of the sector put the economic operators to additional risks of operating, related to still unstable economic and political context, and to other social, juridical, technological, natural risks existing in Romania - as a tourism destination.

Table 2: Prioritization of travel & tourism

Indicator	Value	Position/141
Prioritization of travel & tourism	4.3	88
Government prioritization of T&T industry	4.3	117
T&T gov't expenditure (% gov't budget)	1.8	114
Effectiveness of marketing to attract tourists	3.6	120
Comprehensiveness of T&T data (0-120 best)	92	21
Timeliness of T&T data (0-21 best)	19.5	7
Country Brand Strategy rating (1-10 best)	78.6	32

Source: World Economic Forum (2015), The Travel & Tourism Competitiveness Report 2015 - Growth through Shocks, Geneva.

Tourism and tax evasion. Often the media drew many signals related to common situations of tax evasion, bribery, nepotism, embezzlement and corruption, reinforcing the idea that informality is a pervasive phenomenon in Romanian tourism sector. The "black market" of tourism can be an obstacle to official registration as a licensed operator and law-abiding business. Tourism business owners should keep prices higher than other operators who are not registered, and this often means attracting fewer tourists (Rădan-Gorska, 2013).

Romania has made significant progress in recent years in terms of reducing the level of corruption. According to the

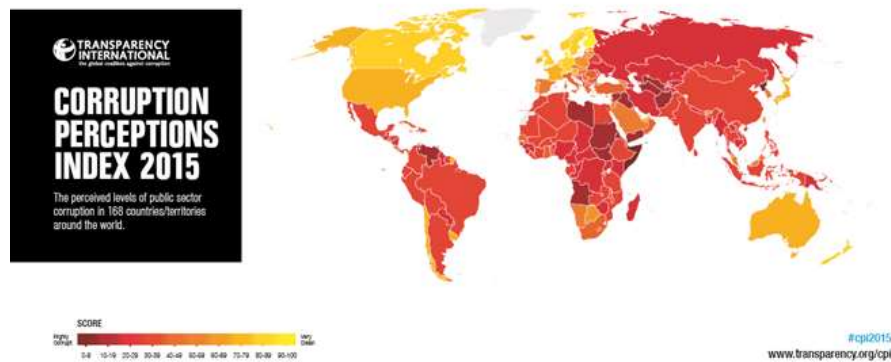
Index of Corruption Perception estimated by Transparency International, Romania is ranked 58 of 168 countries and territories worldwide, with a corruption index of 46 (0 - highly corrupt, 100 - very clean), placing our country under the international average.

A large number of international companies have been in the spotlight, with investigations involving now names like Microsoft, Fujitsu Siemens and EADS Deutschland GmbH. Operating in a changing business environment poses new challenges for investors already present in the country and for those who have considered investing in national businesses. It is important for investors to be able to obtain an independent assessment of

the situation, which would enable them to prevent reputational and financial damage to the company (ControlRisks, 2015). Problems of corruption in Romania led to the suspension of EU funds for economic development

in 2012 of approximately 500 million euro (\$ 648 million) (Freedom House, 2013), including investments in tourism on the short and medium run being affected.

Figure 8: Corruption Perceptions Index 2015



Source: <http://www.transparency.org/cpi2015#downloads>, accessed on 13.07.2016.

On the other hand, the shortcomings of companies' management in the tourism industry have to be mentioned, or the reduced propensity of stakeholders in the tourism industry for collaboration and cooperation with a view to seek solutions to crisis management and other effective methods of risk control (Talmaciu et al, 2015).

5. Tourism business and other associated risks

The quality of the overall business environment is very important for the tourism sector and companies' ability to grow and expand locally and nationally. Thus, according to the Travel & Tourism Competitiveness Report 2015, in 2015, Romania was on the 96th place out of 141 countries in terms of

business environment, with an index value of 4.1 (1 - minimum level, 7 – maximum level), not being one of the most attractive countries in the world in attracting and retaining investors. Indicators such as protecting intellectual property rights, the effectiveness of the legal framework does not encourage the country economic development. The distortions in taxation and competition policy, both at domestic and international levels, as measured by facilitating foreign direct investment (FDI) are negatively influencing the efficiency and productivity of the country, the value of specific indicators placing Romania in the second tier of countries that encourages economic and tourism development at national level. Neither the values of indicators regarding the cost and the time required to obtain building permits do not support tourism

development. Only indicators of the time and the costs of starting a business record values above average, placing Romania among

the countries attractive for tourism business development.

Table 3: Business environment

Indicator	Value	Position/141
Business environment	4.1	96
Property rights	4	79
Impact of rules on FDI	4	105
Efficiency of legal framework settling disputes	3.2	106
Efficiency of legal framework challenging regulations	3.1	93
Number of days to deal with construction permits	255	128
Construction permits cost (%)	2.3	81
Extent of market dominance	3.8	61
Number of days to start a business	8	42
Cost to start a business (% GNI/capita)	2.1	36
Effect of taxation on incentives to work	2.5	137
Effect of taxation on incentives to invest	2.9	126
Total tax rate (% profit)	43.2	94
Labor and contributions tax rate (% profit)	31.5	125
Profit tax rate (% profit)	10.7	42
Other taxes rate (% profit)	1	37

Source: World Economic Forum (2015), The Travel & Tourism Competitiveness Report 2015 - Growth through Shocks, Geneva.

Country risk. In terms of government stability, Romania has a B level country risk, due to political and economic uncertainties and sometimes to difficult business environment which can affect corporate payment behavior. Business environment is acceptable, being at A4 level. Sometimes, the corporate financial information are not readily available or sufficiently reliable. Debt collection is not always efficient and the institutional framework has shortcomings. Therefore, transactions between companies may face significant difficulties in an acceptable environment but occasionally unstable (GlobalEdge, 2016). All these aspects affect the operators in the tourism sector.

Taxation. In Romania, in 2016, the standard VAT rate is 20%. Until 2016, there was

a VAT rate of 24%, introduced in 2009 as a result of the austerity measures implemented by the government during the economic crisis, to reduce the budget deficit. In Romania there is a reduced VAT rate of 9%, which was introduced in 2008 for the hotel sector.

With the tax policy easing, the government deficit is expected to increase, which will cause a slight increase in public debt. In addition to reducing VAT, all public sector wages will increase (15% for the teaching staff and 25% in public healthcare sector), and the dividend tax will be reduced from 16 to 5%. The additional revenue resulting from economic growth, reduction of tax evasion, linked to the informal economy, and the restructuring of public companies, often with losses, will not offset the budget deficit (COFACE, 2016).

The forecasts of Romania's economic rebound and increase in purchasing power of Romanians provides a positive outlook for tourism development but it should be supported by a promotion policy underlining the benefits of domestic tourism, otherwise existing the risk of loss of visitors who will be attracted by external tourism offers with which they are already familiar from previous years and which are increasingly tempting in terms of quality-price ratio.

Exchange rate. According to Euler Hermes, the exchange rate will remain elastic. The exchange rate leu/euro has been fairly stable since 2012, fluctuating by only $\pm 4.5\%$ around an average of 4.45 lei/euro. Sales in emerging markets from mid-2013 and beginning of 2014 affected the national currency similarly to other currencies in the European Community. Exchange rate volatility must be connected with the banking sector vulnerabilities and potential political turmoil specific to election periods (Euler Hermes, 2016a).

Risk of inflation. National Bank of Romania (NBR) aims at a certain degree of stability of the currency and, since 2009, is trying to focus towards credit growth and liquidity growth. Since September 2013, the overall consumer price inflation declined rapidly and was below the NBR inflation target of $2.5\% \pm 1$ pp from early 2014 (established in early 2013). Moreover, the inflation fell in June 2015 as a result of reducing VAT by 9 pp for food products. Deflation has deepened since January 2016, further reflecting the reduction in VAT at the beginning of the year. At the same time, domestic demand and the minimum wage increase in 2016 should exert pressure on prices. Inflation may return in the second half of the year, to around $+0.5\%$ at the end of 2016 and $+2\%$ at the end of 2017 (Euler Hermes, 2016b).

Thus, the tourism sector may face a currency exchange risk, especially as an importer

of tourist services, widening the trade deficit. On the other hand, as an intermediary sector, using inputs from other sectors intensively, such as food industry, textile industry, transport, communications, banking, etc., tourism is vulnerable to any changes in prices coming from operators, with results such as positive or negative (though rare) fluctuations of prices for travels. Therefore, the risks for tourism businesses are even higher as the general economic context interdependencies and vulnerabilities to economic fluctuations are more pronounced.

Conclusions

The tourism of the 21st century needs that organizations and managers to understand how to operate globally and be able to open the horizon of knowledge and to coordinate global processes, anticipating future market developments, drawing on local advantages, implementing technological progress at sector level, in order to offer viable and sustainable solutions and long-run quality service. The future tourism manager will have to manage globalization and not to be dominated or carried by the wave of globalization.

The competitiveness of operators, the regulatory framework of public authorities, multinational corporations, marketing strategies and policies, labour force, consumer preferences, and competitive and innovative partnerships will exert profound reciprocal influence of globalization trends in tourism, but in various extents.

In conclusion, globalization brings many challenges to tourism management, marketing, employment and labour, regulations, etc. Tourism management challenges are paradoxical, but relevant to the practice of this sector.

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