

Regional Disparities in the Development of Small and Medium Enterprises: An Analysis of Hotels and Restaurants Sector in Romania

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Abstract: *The aim of this paper is to analyse the impact of tourism small and medium enterprises (SMEs) on economic development. Even if, SMEs are deficient in terms of skilled labour force, and finance, they have the power to generate value added, backward and forward linkages, entrepreneurship spirit, adaptation to change, with an extreme importance in long-term development and survival on a dynamic market. SMEs are more flexible being supportive of economic growth in local communities. The expansion of SMEs in Romania has various particularities on regional level, being identified different disparities in terms of local units' distribution and turnover creation. Still, in order for SMEs to be able to survive, various measures need to be taken by governments and support their future expansion, considering the economic, social, cultural and political context.*

Keywords: small and medium enterprises, Romania, regional disparities, economic development, turnover

JEL Classification: L83, Z32

1. Introduction

The economic, technological and social importance of small and medium enterprises (SMEs) makes them a key engine for economic development and job creation in different countries. Especially in tourism sector, their contribution is significant as a contributor to growth in local communities. SMEs have an important contribution also to the progress of the contemporary society, being a generator of economic performance and a support to increase of the living standards of citizens (Sánchez et al, 2011).

SMEs are known as foundation enterprises; they contribute to economic growth, supporting GDP creation. Dimoska et al (2015) argue that with their high adaptability and capacity to generate increased turnover, SMEs play an important role in solving regional disparities, and other sector imbalances which exists within an economy, but also provide platforms to increase experience, skills for both employees and entrepreneurs, multiplier economic effect through forward and backward linkages.

Also, SMEs offer also other types of advantages related to flexible communication, fostering change, supple management practices, adaptation to changing environmental conditions, entrepreneurship spirit, more powerful interpersonal relationships, higher cohesion, technological innovation, development of new products (Sánchez et al, 2011; Dimoska et al, 2015). On the other hand, SMEs confront themselves with various problems related to access to finance and various resources or other constrains connected to their organizational size (Camilleri, 2018).

The present article aims to underline the tourism SMEs contribution in terms of

number of enterprises and turnover within the Romanian economy at regional level. The next section summarizes the literature review regarding the importance of tourism SMEs for economic development. The third section describes the methodology. The fourth section refers to the tourism SMEs in Romania and it finishes a regional analysis about their contribution in terms of number of active units and turnover creation. The last section concludes the paper and it offers some general suggestions for tourism SMEs development and survival strategies in a dynamic economic and social environment.

2. Literature review

All around the world, from the total number of enterprises operating in the tourism sector, SMEs have a large majority. The tourism sector is dominated, by tradition, by SMEs which provide various types of products and services from accommodation, food and beverage to transportation, recreational activities, and thus contributing to the total tourism experience (Dimoska et al, 2015)

SME in tourism generates important impact on local development of destinations, reducing social and economic disparities, creating jobs for residents and generating added value for the community. Still, SMEs need to work closely in their current strategies in order to improve their performance as a result of a dynamic business environment and powerful competition coming from internal and international operators.

The investigations conducted by Mohamed and Warth (2012) underlined that SMEs in tourism may generate more economically innovations as compared with larger companies, as they are more flexible

and more diversified. Still, in SMEs operating in tourism sector, finding a qualified human resource represents an important challenge, as they are missing the experience, customer service skills. Another shortcoming that SMEs face is the limited budget allocated for marketing and promotional activities

In different countries, SMEs are expected to play an important role in providing growth for the tourism sector, in particular, and for the national economy, in general. Governments around the world are implementing different plans and policies in order to support the development of SMEs, related to ensuring entrepreneurial skills; enhancing access to diverse financing instruments; more and better infrastructure; smart regulation and smart institutions; digitalisation etc. (OECD, 2019).

The development of tourism industry depends on a large scale on the presence and extension of micro, small and medium-sized enterprises. There is a bidirectional relationship between tourism development and expansion of SMEs; thus tourism sector supports the development of local communities, while on the other hand, in order for the tourism sector to growth, the presence of SMEs is needed to provide products and services for the tourists (Jaafar et al, 2014).

Still, SMEs long-term survival on the market is not easy as they operate in a dynamic environment where the competition is fierce and the management and marketing tools become vital for preserving their competitive position. Moreover, managers seem to lack long-term vision and planning activity as they are missing not just the financial resources but also time, expertise, human resources, knowledge etc.

3. Research methodology

The current research concentrates on the particularities of tourism SMEs in Romania (mainly Hotels and Restaurants sector) at regional level in terms of the:

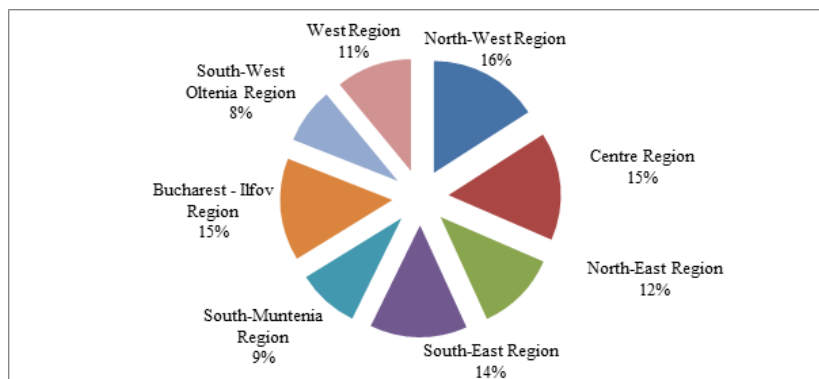
- Distribution of the active companies, by development regions (2017);
- Share of small and medium enterprises, by development regions (2017);
- Evolution rate of the number of active companies, by size classes and development regions (2011-2017);
- Total turnover, by development regions, between 2011-2017 (millions of Euros, current prices);
- Share of turnover in small and medium enterprises, by development regions, 2017.

The data were collected from the National Institute of Statistics in Romania and the statistics processed in order to identify the specific disparities in Hotels and Restaurants sector in terms of development patterns of microenterprises, small, medium and large enterprises.

4. SME in Hotels and Restaurants sector in Romania: a regional analysis

In the Hotels and Restaurants sector in Romania, out of the total of 26,414 active enterprises operating at national level, most of them activate in the North - West region (15.9%), followed by the Center region (15.6%) and the Bucharest - Ilfov region (14, 8%); the South - West Oltenia region is on the last place (8.1%) (fig. nr. 1).

Figure 1: Distribution of the active companies, by development regions, in the Hotels and Restaurants sector, 2017

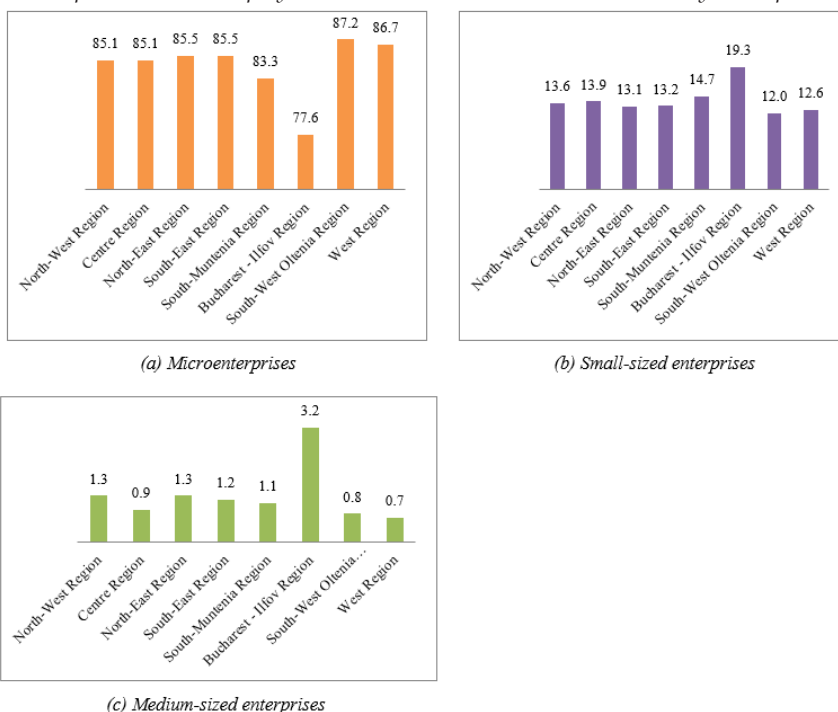


Source: realized based on the data provided by the National Institute of Statistics (INS)

In regarding, the distribution of active companies by size classes, in Hotels and Restaurants sector, micro-enterprises (with up to 9 employees) prevail, in proportion of over 80%; the Bucharest-Ilfov region is the

exception, where the share is slightly lower by 77.6% respectively. The highest concentration of micro-enterprises is found in the South-West Oltenia region (87.2%), followed by the West region (86.7%) (fig nr. 2 (a)).

Figure 2: Share of microenterprises (0-9 employees) – (a) ; small - sized enterprises (10-49 employees) – (b) and medium-sized enterprises (50-249 employees) in the Hotels and restaurants sector, by development regions, 2017



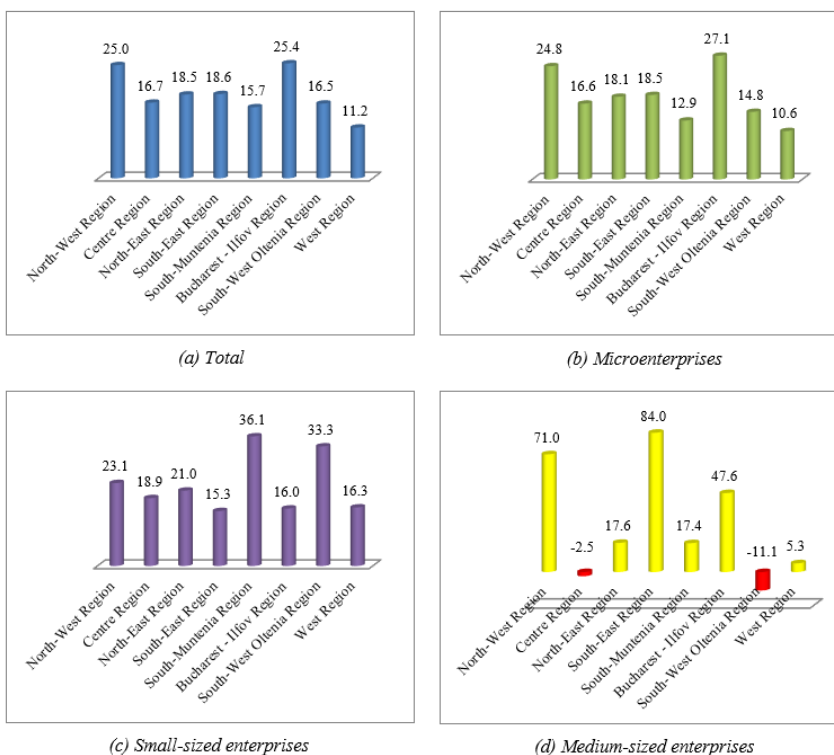
Source: realized based on the data provided by the National Institute of Statistics (INS)

Small businesses with 10 to 50 employees have a share of 12% to 15%; only in the Bucharest - Ilfov region, this share is 19.3% (fig. nr. 2 (b)). The medium-sized enterprises (50 up to 249 employees), hold low weights, of about 1%, while in the Bucharest-Ilfov region their share is around 3.2% (fig. nr. 2 (c)). Large companies with more than 250 employees are limited in number, on average 1 company (in absolute values) at regional level; 3 - 4 active companies in the Centre region and about 18-20 companies in the Bucharest - Ilfov region.

The evolution of the total number of active enterprises in the Hotels and Restaurants sector, between 2011 and 2017, shows that Bucharest - Ilfov region and North - West region were the most dynamic, with increases

of the number of companies by 25.4% and 25% respectively (fig. nr. 3 (a)). The micro-enterprises in the Bucharest – Ilfov region and the North - West region registered increases above the average 27.1% and 24.8% respectively (fig. nr. 3 (b)). Small businesses had different evolutions, and the most dynamic is the South - Muntenia region with a 36.1% increase in the number of businesses, the South - West Oltenia with 33.3%, while in the South - East region, the number of small businesses increased by only 15.3% (fig. nr. 3 (c)). The number of medium-sized enterprises increased by 84% in the South - East region, 71% in the North - West region and decreased by 2.5% in the Centre region and by 11% in the South - West Oltenia region (fig. nr. 3 (d)).

3: The evolution rate of the number of active companies in the Hotels and restaurants sector, by size classes and development regions (2011-2017)



Source: realized based on the data provided by the National Institute of Statistics (INS)

In the Hotels and Restaurants sector, the turnover increased, in nominal terms, by 76.9%; the highest evolution rates were registered in the North-West region (96.9%); the Bucharest-Ilfov region (90.1%), the West region (89%), where the turnover almost doubled in between 2011 - 2017; in the South-East region, the turnover's increase rate was only 52.4% (table nr. 1).

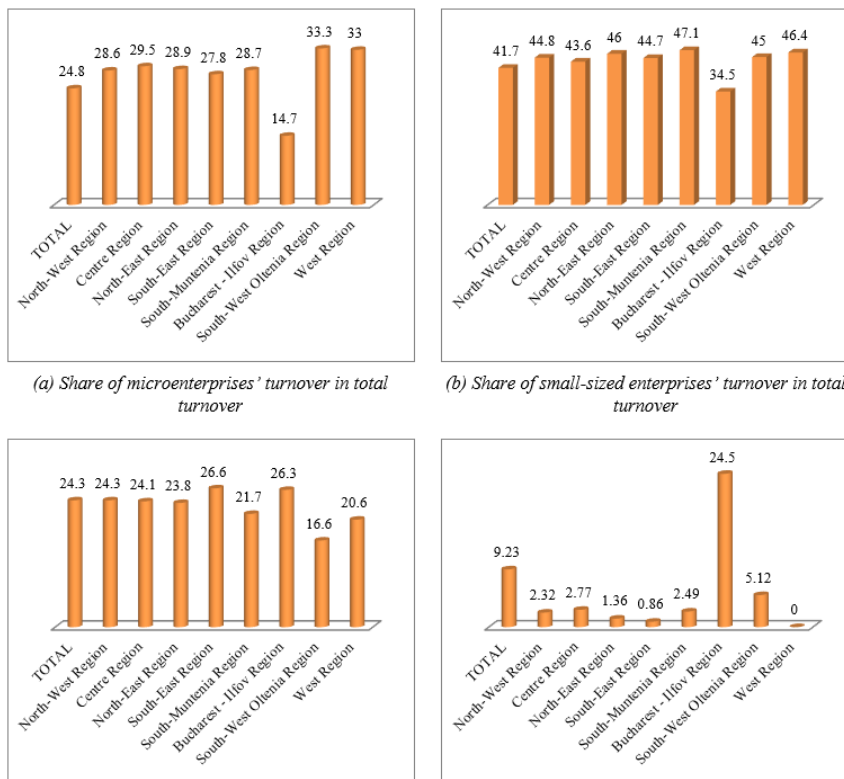
Table 1: The total turnover in the Hotels and Restaurants sector, by development regions, between 2011-2017 (millions of Euros, current prices)

	<i>Evolution rate 2017/2011 (%)</i>
Total	76,9
North – West region	96,9
Centre region	78,0
North – East region	73,1
South – East region	52,4
South-Muntenia region	53,1
Bucharest – Ilfov region	90,1
South – West Oltenia region	53,6
West region	89,0

Source: realized based on the data provided by the National Institute of Statistics (INS)

At the regional level, even though micro-enterprises predominate as a percentage in the total number of local units active in the Hotels and Restaurants sector, the smallest contribution is made by the small-sized enterprises (the South - Muntenia region - 47.1%; the West region - 46.4%; the North-East region - 46%), followed by micro-enterprises (the South - West Oltenia region 33.3%; the West region - 33%; the Centre region - 29.5%) and medium - sized enterprises (the South region - East 26.6%, the Bucharest - Ilfov region - 26.3%, the North - West region 24.3%). Large-sized companies hold important weights in the total turnover, only in the Bucharest - Ilfov region (24.5%).

Figure 4: Share of turnover in (a) microenterprises, (b) small-sized and (c) medium-sized, (d) large-sized enterprises, by development regions, in the Hotels and Restaurants sector, 2017



Source: realized based on the data provided by the National Institute of Statistics (INS)

5. Conclusions and recommendations

SMEs are considered generators of development entrepreneurship. In order to support SMEs development and to encourage local entrepreneurship, financial resources are necessary (Gregoric and Pajic, 2016). The development of tourism industry will depend upon management performances and plans implemented in SMEs and thus, the training skills, experience, leadership of manager will have a significant importance in the future (Set, 2013).

The average number of enterprises is relatively uniformly distributed at regional level, their weight varying between 8% for the South - West Oltenia region and 16% for

the North - West region. Regarding the distribution of active enterprises by size classes, in the Hotels and Restaurants sector, microenterprises with up to 9 employees predominate, in proportion of over 80%, except for the Bucharest-Ilfov region where the share is slightly lower by 77.6%. In between 2011 and 2017, the turnover of the businesses in the Hotels and Restaurants sector almost doubled in the North - West region, the Bucharest - Ilfov region, the West region. Small businesses have the biggest contribution to the turnover (45%), followed by of micro-enterprises (30%) and medium-sized enterprises (25%).

The researches of Sadi and Iftikhar (2011) underlined that customer orientation

and marketing planning are important for the efficiency of SMEs marketing. Their limited budget allocated for advertising campaign need to be compensated through an effective communication with the customers. Especially in the tourism sector companies need to concentrate more on the customers, in order to satisfy them and thus to bring significant benefits in terms of turnover and profits. Thus, the Internet became a viable tool for tourism SMEs interested in developing social connections, social networks. Even if, tourism SMEs are lacking financial and human resources, they still consider that marketing planning is very important to ensure future performance

Mohamed and Warth (2012) proposed several solutions in order for SMEs in

tourism to overcome various obstacles, related especially to: adopting new technologies; establishing partnerships and creating strategic alliances in order to identify new opportunities and attract financial resources; implementing new training and educational programmes through collaboration with universities and educational institutions; boosting innovation and specialization; supporting e-commerce; implementing IT solutions to increase online presence.

Future researches in the field should tackle closely the profound reasons regarding the regional disparities in terms of the development of tourism SMEs in order to facilitate the identification of structural reforms for growth and cohesion.

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