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Review paper

Ljubomir Drakulevski
Institution Faculty of Economics-Skopje,
Ss.Cyril and Methodius University in Skopje,
Republic of Macedonia
drakul@eccf.ukim.edu.mk

Aleksandra Janeska-Iliev
Institution Faculty of Economics-Skopje,
Ss.Cyril and Methodius University in Skopje,
Republic of Macedonia
aleksandra@eccf.ukim.edu.mk

SMALL BUSINESS GROWTH IN THE CONTEXT OF TOURISM
РАСТ МАЛИХ ПРЕДУЗЕЋА У КОНТЕКСТУ ТУРИЗМА

1. INTRODUCTION

With their strong presence in every economy across the world, small businesses have marked their way from being on the borderline to being in the center of attention. If for any reason the big was considered better at the end of the twentieth century at the beginning of the new millennium everything changed. Small businesses have been called small giants introducing a new era of business, where everything is possible. Many success stories have been the backbone of this new positive image, which has been enjoyed and is still enjoyed by small business. The strong presence of small business has been both qualitatively and quantitatively supported. Most developed economies count a
proportion of small business mostly exceeding 90% of the number of active companies, at the same time employing an army of people. The employment generated by the small business segment has been varying somewhere between 40% and 60% of the total employment for each country accordingly.

Global programs and national policies round the world have recognized that in some circumstances tourism is an appropriate tool for sustainable development and poverty relief (Spenceley and Goodwin 2007). Some authors (Lawson et al. 2010) argue that stimulating tourism development is considered one of the only ways for such regions to handle the local effects of neoliberal restructuring and increased global competition. Small businesses have an excessive potential for attracting resources, they don’t demand remarkable capital investments and are with no doubt a generator for new employment possibilities, whereas small tourism businesses are thought to drive social and economic development in areas with few other income generating opportunities (Weinz and Servoz 2011). The increasing knowledge and awareness among researchers have been noticed, because of the vast impact of small businesses on the issues related to entrepreneurial activities, innovation, job creation, profitability and the economy in general. However, until quite recently, the nature of small and micro family businesses has infrequently been evaluated as a distinct field, and it has been treated only incidentally within tourism (Getz and Calsen 2005). Hence, when choosing tourism as a platform for the development of small business it is necessary to take into consideration social and economic problems facing the region. The motivation to develop tourism has been determined by increasing problems of marginality following economic restructuring and a decline in primary sector employment and fewer public sector jobs. One of the most obvious developments in tourism policy internationally over the past two decades has been the continuous growth of interest in small businesses. They have been perceived and qualified by policy-makers as the economic lifeblood of the sector, but at the same time as the laggards that inhibit innovation and growth. Hence, there is research to suggest that policymakers sometimes label small tourism businesses as backwards, a limitation toward innovation and growth (Thomas et al. 2011, 1). This duality has stimulated uncertainties which have raised the academic interest. Especially in the segment of how small businesses ‘worked’ and how they articulated with the economies of destinations. Studies have however, extended past the limits of economic geography.

In this light we aim at discussing different aspects of growth and performance of small business in a setting determined by tourism. This paper has integrated relevant empirical research discussing the growth of small business especially in light of the geographical region and a few other relevant variables such as the age of the business, internal and external constraints, the number of employees and education of the founder. Consequently, this paper provides a comprehensive review and outlines some discussions that are relevant considering the field of small business in light of tourism. The ambition is to add implications related to some major concerns that currently are adding value to the academic discussion.

2. LITERATURE REVIEW

2.1. The significance of small business

In the late 80’ of the last century due to some events in economies in general, a change of how large companies were perceived in comparison to small businesses has occurred. In fact, people have become increasingly aware of the pitfalls arising from committing to large companies. Small business became at a certain point an inevitable topic proving its importance continuously. Supporting are the figures according to which in 2011 of the existing businesses in the United States or approximately 28 million or 99.7% can be considered in the category of small business. Representation of small businesses is evident in all industries, although the highest percentage is witnessed in the service and retail industry. Small businesses are considered to be responsible for 63% of the net new jobs created between 1993 and mid-2013, and the number for 1993 is 14.3 million jobs, and respectively 22.9 for 2013 (SBA 2013).

The presence and importance of small businesses in the European Union does not lag behind the US. Namely, the European Union reported in 2006 that more than 99.8% are categorized as being small and medium businesses whereby up to 91.8% are microbusinesses. According to Eurostat, in
2010, 67% of employees in the non-financial sector within the European Union are engaged in the segment of small and medium enterprises. The microbusiness participates with 30%, small business 20% and medium businesses with 17% of total employment within the European Union (Eurostat 2010).

Recent decades have seen a growth in travel and tourism abroad because of cheap air fares and holiday packages. Tourists around the globe are not only a sign of the progress of globalization, they are also an integral part of the globalization process. Hence the interest towards tourism as a structural economic branch has considerably imposed different discussions. It has been widely accepted that there is a strong link among tourism and small business. The increased orientation towards small business seems justified given the emergent evidence that segment of small business and especially new firm creation has been one of the main driving forces of economic growth, creating numerous jobs (Birch 1979). Historically David Birch (1979) has been claimed to be one of the researchers putting the rightful importance of small business into discussions. This process started with his seminal research which showed that 81.5% of net jobs in the USA, between 1969 and 1976 were created by small firms. According to the mentioned research small businesses created a high share of new jobs raising the interest of policymakers who, in the high unemployment days of the early 1980s, were interested in new methods for reducing unemployment.

The origin of the word 'tourism' is usually attributed to the Grand Tour, which originated in Britain in the 17th century (Feifer 1985). Considering the past 50 years, tourism has been marked by remarkable expansion. Historically in the 1950s, there were 25 million international tourists arrivals recorded. By 1999, the World Tourism Organization assessed that there were additional 664 million international tourist arrivals and that international tourism receipts for that year reached US$ 455 billion (WTO 2000). To bring the total phenomenon of tourism in perspective, it should be noted that estimations indicate that international tourism accounts for only 20% of all tourist activity, bringing forward that the rest is comprised by domestic travel (WTO 1999; IHRA 1999). Henceforth it is not surprising that tourism is nowadays referred to be one of the world's largest economic sectors, but however it should be noted that tourism is not a single industry in the traditional sense.

2.2. Defining small business

Starting the discussion related to small business always drives us to the primary concern. This is basically embedded in the problem of setting a clear and unambiguous definition of small business. Small businesses are companies that have individual owners who manage the business and at the same time these are too small to be dominant in the industry where they are active (Corman et al. 2005, 6). Correspondingly, the Small Business Act states that "a small business concern shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation" (U.S. Small Business Administration 1978, 1211). According to official data of SBA a small company in the United States is defined as a business that is independently managed and independent of ownership, profit entity and is not dominant in its field. The definition is depending on the industry, eligibility in terms of size is based on the average number of employees for the past twelve months and sales volume weighted average for the past three years.

In this respect it should be noted, that aside the academic research, very often countries set a formal by law prescribed frame for small business. Hence the EU prescribes a certain format which would be considered as small business. Taking the EU definition for small enterprises, with inclusion of micro-businesses, as a starting point, small businesses are those that have fewer than 50 employees and have a turnover or balance sheet total that does not exceed 10 million (European Commission 2003b).

Small business in the Republic of Macedonia, defined according to the criteria of Article 470 of the Company Law, constitutes the population of this study. Hence, companies are classified into large, medium, small and micro, depending on the number of employees, annual income and average value of total assets in the annual accounts for the last two years (accounting years). In Macedonia small businesses are considered those having less than 50 employees and not exceeding an annual turnover of 2 million euros.

There have been occasional attempts at creating grounded definitions of small firms in tourism and hospitality (Peacock 1993) but, in practice, most academic researchers defer to official definitions, where distinctions are usually made according to the number of people employed. Unfortunately, there is no international agreement on size groups. There have been several influential surveys of small
business management practices undertaken over the past decade or so (Page et al. 1999). Examination on tourism small business in developing economies has been relatively ignored until very recently, regardless of some significant early studies (Rodenberg 1980; Wahnschafft 1982).

2.3. Tourism and small business

At the start of the new millennium tourism probably had a higher degree of visibility than ever before (Hall 2005a). The tourism sector is largely driven by micro and small businesses, usually counting less than fifty employees, with the vast majority of these being micro businesses. Moreover, tourism employment is up to ten percent of the entire workforce in some of the municipalities considering some studies (Lundmark 2005). Tourism development requires commitment from a range of stakeholders who must understand the requirements of tourism (Dwyer et al. 2009). This is something which can be problematic in non-traditional destinations (Ayikoru 2015). Most empirical research has tried to specify the distinguishing characteristics of tourism of SMEs and their owners (Page, Forer and Lawton 1999).

It should be noted that Tourism covers a variety of products and services, whose borders for inclusion are poorly determined. From an economic perspective, an industry is defined as being a group of independent companies, all turning out the same product, sameness being defined in terms of their substitutability expressed as the cross elasticity of demand. Obviously this makes analysis and research related to tourism even more complex.

Perhaps stimulated by a major public investment in small business research, several British academics examined the qualitative differences between small, medium and large scale tourism enterprises (Morrison 1998a; Thomas 1998) and made the case for recognizing their distinctiveness. Though there had been some highly influential publications earlier the novelty of small business research in tourism during the late 1990s is captured by suggestion that it was almost terra incognita (Page et al. 1999) meaning that researchers are facing new unknown fields of research.

Small business in many contexts referred to as small and medium sized enterprises (SMEs) is a key feature of the marketing landscape in the tourism industry; they represent the majority in terms of business structures (Morrison et al. 2010). Hence a typical tourism cluster comprises of the quality of a visitor’s experience which depends not only on the appeal of the primary attraction, but also the quality and efficiency of complementary businesses such as hotels, restaurants, shopping outlets and transportation facilities (Porter 1998b). The discussion of small business is inevitable in light of tourism. Small businesses are perhaps both the main pillar of the tourism industry whereas simultaneously, presenting a ‘weak link’ in terms of restraining growth and innovation (Thomas et al. 2011). Furthermore it should be stressed that small business presents a distinct set of characteristics and may operate on an individual basis, without coordinating with complementary businesses within their region (Gilmore 2003).

3. METHODOLOGY

For the purposes of this research we run a multiple regressions analysis of including certain dimensions such as: external constraints, internal constraints, education, number of employees, age and regional aspects connected to tourism.

3.1. Data and sample

For the purposes of this research 292 small businesses are included, whereby 89, or over 30% of the sample is consisted of small business in the region of Ohrid. The questionnaire was prepared and tested on a small number of businesses and feedback was received in order to improve and clarify some issues of potential respondents, and accordingly valuable changes have been implemented. The distribution of the questionnaire implied several ways: handing printed questionnaires in person to randomly selected companies; submitting the questionnaire in an online soft copy by email, as well as uploading the questionnaire in electronic format on-line application which can be directly filled in.

Our data was analyzed by the statistical analysis software SPSS.
3.2. Operationalization of variables

**Dependent variable:**

Growth is a complex issue and therefore investigating growth of companies contains many elements. The growth as a dependent variable is determined by the average of the values provided by a Likert scale from 1 to 5 considering seven aspects of growth. Very often investigation of growth dilemmas forces discussing relationship between growth and various aspects of small business operations. One of the main complications in exploring growth of small business is that the most research-oriented considerations determine the extent of growth, while usually not perceiving the existence of substantial qualitative differences in how businesses achieve growth (McKelvie and Wiklund 2010). Further problems concerning the issue of growth are mostly related to the attention on general factors that affect growth, associated with the basic characteristics of enterprises, also known as demographic factors, such as size and age of business, form of organization, ownership, the type of industry in which it operates, and so on (Wiklund et al. 2009).

These factors are often beyond the control of the owners of small business, especially those related to growth and development. The discussion about whether and how some strategic aspects could be implemented in daily routines of small business is still an ongoing dispute, still subject to various analyses that often face conflicting views. Considering small business characteristics it is obvious that there are some limitations regarding traditional strategic instruments producing results. In this line the main effort in this analysis is directed toward influencing these aspects in order to achieve success.

Discussing the growth of any business has been related to performance issues. Hence company performance issues have drawn the interest of scholars from various disciplines and perspectives (Maes, Sels and Roodhooft 2005). Two performance measures are notable in the literature: financial measures, such as profit, turnover, return on investment, productivity and also non-financial measures, including the number of employees, communication, learning, trust, stakeholder satisfaction, and competitive position (Maes, Sels and Roodhooft 2005).

**Independent variable:**

**Touristic region**

The tourism industry has indeed provided many business opportunities to the people. Tourism generates a great amount of opportunities and hence is one of the structural parts of this research. With tourism development, the local people have golden opportunities to offer services or sell products to local and foreign tourists (Rogerson 2004). The variable related to tourism is a categorical binary variable determining, whether the company is or is not situated in the touristic region of Ohrid. In general, research related to tourism phenomenon is a quite recent addition to academic endeavor. The expressions used to describe the movement of people for pleasure, “tourism” and “tourist”, were introduced only at the beginning of the 19th century (Smith 1989). Furthermore it is quite difficult to lock down of what tourism entails and more so it is evident that almost every sector could directly or indirectly be part of the tourism segment. If early discussions were mainly focused on service industry providing accommodation, food or transport, nowadays all and each business could be part or influenced by tourism.

**External constrains.**

External constraints are included as continuous variables that may have value in the range of 1 to 5, so again the Likert Scale is used, 1 being the lowest level and 5 the highest level of occurrence. This variable designates more features related to external environment, which may occur in the form of constraints. External environments would come in many forms, such as macro-economic policies and procedures (Fogel and Zapalska 2001), access to financing and infrastructure, quality of infrastructure services and time saved in obtaining licenses (Sharma et al. 2007) which may directly or indirectly impact small business performance. These external aspects are beyond the control of a business and can be either hostile or in favor of small businesses (Smallbone and Welter 2001). External constraints for businesses could be attained to some limitations to enter certain markets, low market demand of the product, access to inputs or raw materials, problems with export, legislation for public procurement and etc. (Bartlett and Bukvic 2001). The environment can with no doubt create numerous
constraints for any company, due to size, volume of work and markets they serve facing a significantly higher uncertainty and dependence upon external circumstances (Fadahunsi 2012).

**Internal constraints.**

Internal constraints are covered as continuous variables that may have value in the range of 1 to 5, so again the Likert Scale is used, 1 being the lowest level and 5 the highest level of occurrence. Research (Rogoff, Lee and Suh 2004) argues that the success or performance of firms is determined by internal and external factors. Internal constraints are established in the company itself and are derived as a consequence due to lack of resources, limitations of the capacities in the company, insufficient capabilities, skills and knowledge of employees, constraints related to the organizational culture of the company and etc. Mostly it could be claimed that internal constraints result from the lack of resources. Obviously for small businesses the environment influences organizational development, but the internal perspective proposes that the entrepreneur assumes a more active than reactive role in the development and success of the venture.

**Education.**

The owner is acting as the founding father and main figure behind the business, consequently intensely influencing the overall operations of the small business. Accordingly it is considered that the level of education determines how well the business is managed. In the research respondents need to provide information concerning the owner’s education by implying their level of education from the five categories provided within the questionnaire (primary education, secondary education, university education, master degree, doctoral degree). The level of education of the owner in perspective of small business has been defining their development. Wiklund et al. (2009) suggest that human capital has little to no direct influence on small business growth, rather, human capital has a positive impact on entrepreneurial orientation, which, in turn, has a positive impact on growth. The importance of knowledge-based resources has been well documented in the literature (Wiklund and Shepherd 2003). Firm success often relies upon the firm’s ability to accumulate knowledge and process it, in order to enable organizational learning (Cohen and Sproul 1991). There is a belief that entrepreneurs who are educated and have the required skills, discipline, motivation, information and confidence reach higher growth rates in business (Ucbasaran et al. 2008). Additionally some authors stress that growth of a small business is dependent upon the small business manager’s capacity to manage growth (Sexton and Bowman-Upton 1991).

**Size**

Academic research has treated size as one of the main parameters which determine the growth and development of companies. In this respect the size of companies is usually related to the number of employees. Every organization is strongly influenced by the people engaged, hence increasing the number of employees is expected to bring a positive drive in terms of growth in the company. However, it should be noted that many of the managers of small companies do not consider growth of the number of employees as an end for itself, but rather a tool for creating growth in the sales area. (Robson and Bennett 2000).

**Age of business**

Usually the maturity and development of any business entity is expressed by the age, which of course is conveyed in the number of years of existence. In this line of the analysis the companies provided information regarding the years of existence presented as a continuous variable.

**Research Approach**

Multiple regression analysis is used for examining the relationships among the sets of variables. The main aim is to see whether the growth of small business is affected by the regional aspects, i.e. being part of a specific touristic region shall determine the main countries of the small business. Basically two groups have been integrated in the discussion one related to the most basic characteristics of small business such as the sector and the regional aspect, other aspects related to the education of the owner and third group is related to the external limitation which small business often faces.
4. RESULTS AND ANALYSIS

The multiple linear regression was run to determine the direct relationship between the dependent variable, growth and the independent variables of tourist region, sector, education, external constraints, internal constraints, education, size, age. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met.

Considering the independence of residuals, as assessed by a Durbin-Watson statistic of 2.079 indicate that there is no correlation between residuals. The analysis addresses properly the data distribution. The assumptions of linearity, independence of errors, homoscedasticity, unusual points and normality of residuals were met.

The coefficient of determination (R²), is 0.265, indicating that the independent variables explain 26.5% of the variability of the dependent variable. The results for multiple regression analysis are provided in Table 1.

From the proposed variables three: touristic region, internal limitations and the number of employees added statistically significantly to the prediction p < .05.

Table 1. Multiple regression results

<table>
<thead>
<tr>
<th>Latent variable</th>
<th>B</th>
<th>SE</th>
<th>β</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Touristic region</td>
<td>.434</td>
<td>.115</td>
<td>.195</td>
<td>.000</td>
</tr>
<tr>
<td>Education</td>
<td>.086</td>
<td>.068</td>
<td>.065</td>
<td>.205</td>
</tr>
<tr>
<td>External constraints</td>
<td>.139</td>
<td>.080</td>
<td>.113</td>
<td>.086</td>
</tr>
<tr>
<td>Internal constraints</td>
<td>.360</td>
<td>.071</td>
<td>.331</td>
<td>.000</td>
</tr>
<tr>
<td>No. of employees</td>
<td>.013</td>
<td>.004</td>
<td>.169</td>
<td>.002</td>
</tr>
<tr>
<td>Age</td>
<td>-.006</td>
<td>.007</td>
<td>-.046</td>
<td>.394</td>
</tr>
</tbody>
</table>

R²: .265
Adjusted R²: .249
F-statistics: 14.571
Durbin-Watson: 2.079

Source: Authors’ calculations

The results of the multiple linear regression model are presented as stated in the Table above and from total of 6 predictor variables only 3 variable are statistically significant at 95% level of significance.

The touristic region is significantly influencing the growth of small business, therefore proves one of the main issues related in our research. Namely small business development and growth differs accordingly influenced by the fact of being active in a touristic region. Considering the coding in our research every change of being in the touristic region toward not being has a positive influence on growth. This again proves that small business in tourist region are restraining growth development, Internal constraints have been also indicated as being statistically significant in light of small business growth. Again the internal capabilities of small business are a strong determination point toward the future. This is expected since internal resources are strongly influencing the potential of growth and development for small business

As expected, the number of employees presents a positive statistically significant variable towards growth, for small business. This is rather expected since growth is often measured by the number of employees among other aspect.

It should be noted that the age as well as the, external constraints and the level of education of the owner do not pose a significant influence in the model, hence they are not statistically significant related in light of growth of small businesses.

5. CONCLUSION

Small businesses have been the driver of economic development for the past twenty five years. The interest of research has included many issues concerning the characteristics and performance of small business within different settings. Due to low start-up costs and low entry obstacles tourism creates business opportunities for small entrepreneurs in various tourism-related business activities, starting
from manufacturing, service going as far as agriculture and construction-related businesses. Obviously mostly referred to as business opportunities are the so called hands on tourism-related services, such as accommodations, food outlets, tourist agents or guides, retails, and sport facilities. The results of this study have proven empirically significant impact on growth of the small business related to tourism. At the same time this sends a clear signal that any efforts by governments in promoting and developing tourism would bring about positive impact on the performance of small tourism businesses. In the same direction and having a positive statistically significant influence on growth, the internal elements of small business embedded in the availability of certain resources are considered. Furthermore, one of the measuring points for growth is considered to be the number of employees, naturally this variable strikes as a statistically significant influence on the dependent variable growth. This paper proves the importance of different aspects related to small business growth and provides some input for the possible questions raised in small business research outlines.

REFERENCES


