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CHALLENGES OF TOURISM BUSINESS IN CONTEMPORARY WORLD

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Abstract

Tourism has the potential to empower communities and the sustainable tourism agenda needs to focus on how to bring this about. Considerable investments are required in communication and trust building between the actors in tourism. In this context, to make successful development of tourism, it is necessary to understand the importance of entrepreneurship and human resource management. Tourism businesses have been identified as an essential actor for creating jobs and growing the economy in general. Also there is an attempt to identify the constructs that influence the building of the high-quality entrepreneurship in tourism business as the need of accessing of finance to make this reality. The study undertaken aims to explore the immediate effects of accessing and using finance on the current context of tourism, highlighting the influences on the tourism business in Italy and Spain.

Keywords: Finance, Entrepreneurship, Tourism, Business, Benefits

INTRODUCTION

The role of tourism in the economic growth and to the progress of modern societies has become a common awareness in political authorities worldwide. For this reason many attempts are being made in order to develop tourism, being among the most important sectors of economic activity, to the benefit of their economies as quickly and as effectively as possible. The contribution of the tourist sector is beneficial for the country's economy due to its influence on the sectors other than the foreign exchange sector, including: the employment sector, the business sector, the income sector, the cultural sector and the fiscal sector. Also, there is a need to underline the essential meaning of international tourism and trade, which are expected to be quite dependant on the exchange rate regimes. The international trade is another argument commonly used to justify the exchange rate policy. In this sense, more fixed exchange rates are expected to promote international trade and tourism via reduced uncertainty in the international transactions. However, the empirical literature is not conclusive in this task. The evidence about the effect of the less exchange rate volatility on trade is mixed [10]. The results are very sensitive across studies, depending on the countries and periods considered.

LITERATURE REVIEW

An entrepreneurship quality measure is essential to develop because it could help focusing on the high-growth of small and new businesses, according to the researchers. This will help

to identify a wide range of economic, social, policy, and firm factors that may affect the development of high-quality entrepreneurship. Also it will enable entrepreneurs to uncover the critical role of the high-quality entrepreneurship in economic growth and in rural development too. One of the synonyms for entrepreneurs is the fact that they innovate. In this way they create and employ [1]. Entrepreneurship is necessary for the creation of the new organization, and the construction of the new businesses. So, it plays a crucial role for the success of the economic growth and leads to business benefits.

Entrepreneurial individuals transform their entrepreneurial ambitions and qualities into actions. So, an organizational extension of the individual entrepreneurial actions and a behavioural manifestation of entrepreneurship could be identified in small firms[15]. In this way, another authors expressed that entrepreneurship quality is connected to the job creation in small tourism business and to the economic growth in general. New small tourism businesses contribute to the flourishing of entrepreneurship as important catalysts or actors in technological innovations; as agents of changes in market structure and competition environment, and as critical forces in the industrial restructuring and national competitive advantage upgrading [12].

High-growth and high-potential small tourism businesses have positive impacts on the economic growth. The possibility to understand entrepreneurship quality is very important in a way to discuss about the essential meaning of entrepreneurial leadership, market and marketing orientation, differentiation and tourism destination development. This will enhance accessing high-quality entrepreneurship in tourism industry. Growth in the tourism industry will bring benefits which will facilitate job creation [3].The government regards this as an opportunity to create employment and to bring in equality in the country's job market.

FINANCES FOR STARTING BUSINESS IN TOURISM SECTOR

The tourism industry has been identified as one of the key industries for driving economic development and economic transformation in developing countries. Some authors define entrepreneurial leadership as "leadership that creates visionary scenarios used to assemble and mobilize a „supporting cast" of participants who become committed by the vision to the discovery and exploitation of strategic value creation" [5];[7]. So, owner manager has a vision for using all the potential from tourism industry. But in the most cases the biggest problem for starting business in tourism industry is the financing. The costs incurred before any funding is received must be paid up-front by the developer/project proponent. A funder does not want to pay for costs already incurred. This applies particularly to non-profits applying for grant monies. Most lenders require the developer/entrepreneur to contribute cash equity towards a new development project or expansion of an existing business. A loan to value ratio of 50% is not uncommon for banks lending to tourism/hospitality businesses. Similarly, many grant programs will not provide 100% funding coverage [8]. They require applicants to demonstrate evidence of other funding sources to match the grant funds being sought.

In more advanced developing countries, where there is reasonable progress in the fundamental institutions, tourism SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital, leasing and so on. Loans extended to tourism SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also be very limited. Finally, in many developing economies, banks prefer to lend to governments, which offer less risk and higher returns, crowding out

most of the private sector from the financial system [16]. There are generally three main funding options that tourism businesses can choose from to raise capital: debt funding, equity funding and government funding [15].

There are various factors that influence the choice of businesses to use debt capital as a source of financing. Some of the main considerations are the repayment period, the interest rate and tax implications. In most banks and credit unions there is the option of speaking to a representative in their commercial banking or small business department. Some banks may even have a hospitality/tourism lending expert(s). There are two main types of loans available from financial institutions: operating loans and term loans. Operating loans (short-term debt financing) are typically short term and finance the ongoing day-to-day operations of a business (such as employee wages, purchasing inventory, raw materials and accounts receivable). Term loans (long-term debt financing) are generally granted for capital investments or acquisitions, and there is a scheduled loan repayment period. This may include the assets being financed, along with personal guarantees from the business owner(s) and any other assets owned by the business, such as land, buildings, equipment and leasehold improvements.

ANALYSIS, RESULTS AND DISCUSSION

The growth of tourism refers to the gradual evolution of tourism which is an important factor for the productivity of a country's economy. This is accomplished with the complete evaluation and the rational exploitation of tourism resources, with the increase of tourism productivity and its qualitative improvement as with its adjustment to the needs or desires of tourists. The role of tourism to the economic growth and to the progress of modern societies has become a common awareness in political authorities worldwide. For this reason many attempts are being made in order to develop tourism, being among the most important sectors of economic activity, to the benefit of their economies as quickly and as effectively as possible. The contribution of the tourist sector is beneficial for a country's economy due to its influence on the sectors other than the foreign exchange sector. Here are included, for example, the employment sector, the business sector, the income sector, the cultural sector and the fiscal sector. Also, there is a need to underline the essential meaning of international tourism and trade, which are expected to be quite dependant on the exchange rate regimes. The international trade is another argument commonly used to justify the exchange rate policy. In this sense, more fixed exchange rates are expected to promote international trade and tourism via reduced uncertainty in the international transactions. However, the empirical literature is not conclusive in this task. The evidence about the effect of the less exchange rate volatility on the trade is mixed [10]. The results are very sensitive across studies, depending on the countries and periods considered.

In addition, the study covers several countries and explains the impact of tourism on their economy. Also, the estimation which measured the effect of tourism in Italy and Spain is made.

Spain

Increased tourism expenditure leads to adjustments through a real exchange rate appreciation that reduce exports from other exporting sectors and increases imports. The exact effects on the different sectors are a result of positive and negative effects, so the actual results are difficult to predict without numerical simulation. The gain in welfare following a tourism boom was found to be relatively small. This is because tourist expenditure doesn't itself create value. That is done by factors that provide services for tourists. In the absence of

tourism boom, these factors could be employed in other sectors. The tourism boom increases productivity of these factors, hence their wage, by increasing the possibilities of employment open to them. So the CGE model doesn't assess the importance of tourism in terms of what proportion from GDP is attributable to tourism. Also, the literature offers research which proof that reductions in the value of non-tourism exports and increases in imports offset the increased revenues from tourism [13].

Italy

As far as Italy is concerned, many studies suggest that a long run bi-directional temporal causality is assessed for international tourism and economic growth. When the economic impact of tourism is measured, it is found that only physical capital is influenced by economic growth, traditional exports and tourism in the long term. The findings also suggest the importance of physical and human capital accumulation in the process. Furthermore, it is also found that traditional exports Granger cause economic growth in the short-run. Consequently, there is a strong influence from exports to economic growth, since it exists in both short and long terms. It is observed that the economic growth driven exports mechanism is also valid.

The results for Italy are consistent with its economic history. A study explains that by 1950 Italy had become the world's third most popular tourist destination after the United States and Canada [9]. Between 1951 and 1965, tourism growth in Italy averaged 11.5% per annum, and tourism's share of exports rose from single figures to 19.3% [6]. During and after this period the international tourism scene changed dramatically as population growth and demographic changes, technological innovations and socio-economic developments encouraged international travelling and competition, and as tour operators began to invest heavily in the comparatively cheap coastal areas of the Mediterranean (e.g. Greece, Spain, Turkey). Also, some authors underline the fact that additional negative factors limited Italy's ability to attract tourists from the 1970s to the 1990s, such as Italy's lack of quality accommodation and transport services, negative publicity stemming from natural disasters and pollution, crowding and congestion in major tourist centers, or petty crime, among others [4]. Later on, the 1992 recession and the continued stagnation of the Italian economy created inflation in tourism. However the devaluation of the lira in September 1992, and the unstable political situations in the former Yugoslavia, the Middle East, Egypt, Turkey and Spain had positive impacts on international travel to Italy and promising projections were made for the period 1994-2000. So, the message is more than clear – tourism expansion has crucial role for long-run economic growth, and also, there is the importance of physical and human capital with respect to economic growth and tourism expansion.

Data and methodology

We use World Bank data from 1993 to 2012 to estimate the effect of tourism on the selected countries Italy and Spain. As a proxy variable for tourism we use tourist receipts, in the analysis we also include the exchange rate as proxy for international prices -REER (Real Effective Exchange Rate) and Air departures as a proxy for transport infrastructure which is of importance for the tourism industry and the development of the country. As a dependent variable in our models per capita GDP growth variable is used. We apply OLS regression with country effects and we estimate three models, and also we use Dickey fuller technique on the residuals from the first model in the OLS regression to check for the cointegration of the variables.

Definitions of the variables

Definitions of the variables that are being used in our models are given in the following Table 1.

***Table 1** Definitions of the variables*

GDP per capita growth (annual rate %)	Annual percentage growth rate of GDP per capita based on constant local currency. GDP per capita is gross domestic product divided by midyear population.
International tourism, receipts (% of total exports)	International tourism receipts are expenditures by international inbound visitors, including payments to national carriers for international transport. Their share in exports is calculated as a ratio to exports of goods and services, which comprise all transactions between residents of a country and the rest of the world.
Real effective exchange rate index (2005 = 100)	Real effective exchange rate is the nominal effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or index of costs.
Air transport, registered carrier departures worldwide	Registered carrier departures worldwide are domestic takeoffs and takeoffs abroad of air carriers registered in the country.

Descriptive statistics

Descriptive statistics of the model is of importance which has first insight in the values of the variables and their statistical properties (Table 2).

***Table 2** Descriptive statistics*

Variables	Obs	Mean	Std. Dev.	Min	Max
GDP per capita growth (annual rate %)	106	1.361604	2.966469	-7.95	6.21
International tourism, receipts (current US$)	94	14.16819	9.142885	2.08	35.28
Real effective exchange rate index (2005 = 100)	114	4.581697	0.080826	4.39556	4.900076
Air transport, registered carrier departures worldwide	108	54.5	31.32092	1	108

OLS regression and country effect analysis

In this section we perform OLS regression on three models and we estimate cross-country effects. Three models are reported in the following Table 3. We estimate the following functional forms:

$$\gamma = \alpha + Tr + \eta + i + \varepsilon \tag{1}$$

Where γ is the economic growth in per capita terms variable, α is the constant of the variable and are tourist receipts as percentage to export, Tr and η are the other two variables namely infrastructure variable and exchange rate. ε is the usual error term, that is white noise error term that should follow normal distribution $N(0\sim\sigma^2)$ for the estimated coefficients to be BLUE (Best Linear Unbiased Estimators) and i are the countries that we control for.

Table 3 Regression results

Growth of GDP per capita is dependent variable						
	(1)		(2)		(3)	
Independent variables	Coef.	P>|t|	Coef.	P>|t|	Coef.	P>|t|
Tourism receipts	0.35	0.14	0.51	0.04	0.44	0.09
Exchange rate			-2.76	0.05	-2.85	0.04
Air departures					0.18	0.16
Spain	0.75	0.16	0.61	0.25	0.45	0.41
Italy	0.50	0.13	0.12	0.76	0.11	0.77
Constant	-0.33	0.68	12.17	0.05	12.09	0.05
Functional form (p-value)	0.0224		0.1921		0.2694	
R²	0.2542		0.3023		0.3272	

From the results we can observe that tourist receipts are positive and significant or nearly significant, especially with the influence of exchange rate. Exchange rate influences negative and statistically significant on the economic growth per capita, as infrastructure variable signs on the exchange rate variable and air departures are as expected, while infrastructure exerts positive relationship with economic growth (Figure 1 and Figure 2).
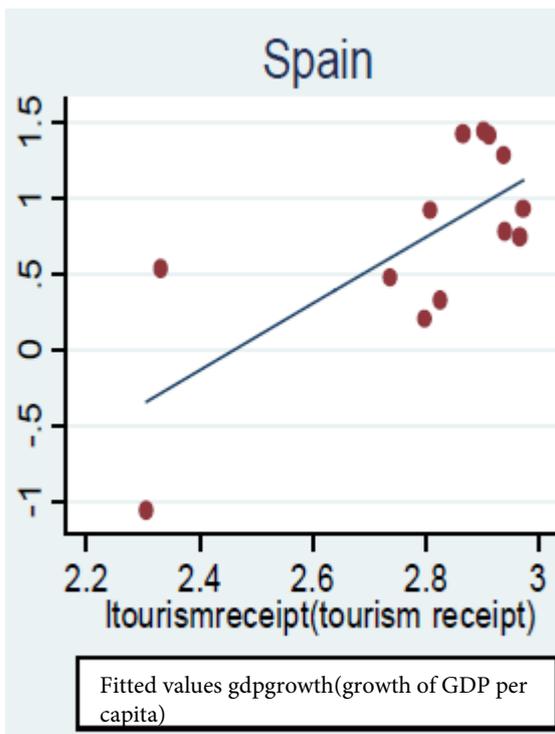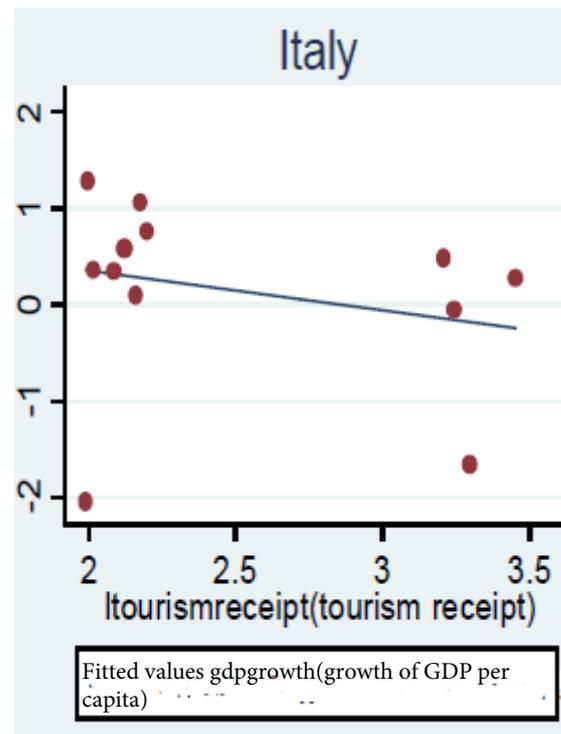

Figure 1.Growth of GDP per capita (Spain)

Figure 2. Growth of GDP per capita (Italy)

CONCLUSION

The paper shows that there are a variety of sources of funding available for tourism business or organization. When developing a funding proposal for tourism venture, we must ensure several points like understanding the funding source's criteria and understanding the advantages and disadvantages of the type of funding that you are considering (e.g. debt versus equity financing).

Tourism through the creation of attractions and provision of supporting infrastructure, can effectively create its own demand. For this aim, tourism has his own strategy. This strategy should provide a tourism management and marketing structure, supporting research and product development and giving attention to risk management in tourism business. From the above analysis, there is statistically significant proof of the relationship between the tourism receipts and economic growth. This relationship is positive and merely significant. Also the residuals of this regression when tested for stationarity, proved that they do not contain unit root, i.e. that the two series (economic growth and tourism receipts) are cointegrated. This is in line with the proof for causality. On the other hand, real effective exchange rate in presence of tourism receipts exerts negative and statistically significant relationship. While air departures as proxy for infrastructure exerts positive relationship with economics growth, exchange rate and tourism receipts. The implication is that international tourism expansion plays a relevant role for the economic growth in the economies mentioned above. The intense state intervention for tourism growth and especially for tourist economy, arises either directly from the performance of tourist infrastructure works or indirectly from the mechanism of funds and incentives. Generally, this is a characteristic feature of modern tourism, but also it is factual evidence that the state tries to develop tourism, which is regarded as one of the most important sectors of economic activity. All these countries are examples for economies that are moving faster with an important contribution of international tourism. In this way, governments should be aware of the potential positive role of tourism and thus how to gain a comparative advantage from such an economic activity.

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