

ANALYSIS OF EMPLOYMENT IN TOURISM AND HOSPITALITY SME'S: THE CASE OF THE REPUBLIC OF NORTH MACEDONIA

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Abstract

Tourism and hospitality are one of the world's largest industries, or economic sectors, contributing trillions of dollars annually to the global economy, creating jobs and wealth, generating exports, boosting taxes and stimulating capital investment. Tourism makes a major contribution to the economies of most developed and developing countries. 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. Tourism is an important economic activity in most countries around the world. As well as its direct economic impact, the industry has significant indirect and induced impacts. The small and medium tourism enterprises (SMTEs) are driver of inclusive economic growth in Republic of North Macedonia and the creation of sustainable jobs increasing productivity.

The subject of research in this paper is employment in SMTEs, focused on investment in human resources.

The aim of this paper is to point out the tourism and small and medium-sized enterprises impact on employment in the Republic of North Macedonia.

Key Words: enterprises, tourism, catering, employment, job creation, human resources

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1. Introduction

Since tourism sector is labor absorbing sector, it is relatively more effective in creating jobs than other sectors. Tourists expenditure provides direct or indirect employment opportunities in this sector. On the other hand, the data shows that Macedonian enterprises are micro, small or medium-sized. For this purpose, in the paper will be analyzed the employees in the SMTEs.

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; also, tourism generates growth of primary and secondary sectors of the industry as a result of multiplicative effects of tourism spending (Ardahaey, 2011; Önder, & Durgun; Pavlic, Tolic, & Svilokos, 2013⁴). Since tourism sector is labor absorbing sector, it is relatively more effective in creating jobs than other sectors.⁵ Tourists' expenditure provides direct or indirect employment opportunities in this sector.

2. SMMTEs as generators for employment

Today, tourism has become one of the most important areas of economic activity in the world, with great participation in national economies both in developed countries and in developing countries.⁶ A number of efforts have been made in the professional literature to distinguish the specificities under which these enterprises are differentiated from enterprises from other sectors. Mainly their specificities derive from the specifics of the service character of the core business, but are largely determined by the tourism as a phenomenon because they are the driving segment of the so-called tourist industry.

⁴ Dimovska, T., Tuntev, Z., and Nikolovski, B., THE RELATIONSHIP BETWEEN SMALL AND MEDIUM-SIZED ENTERPRISES, TOURISM AND ECONOMIC DEVELOPMENT, (JPMNT) Journal of Process Management – New Technologies, International Vol. 3, No.1, 2015. <https://scindeks-clanci.ceon.rs/data/pdf/2334-735X/2015/2334-735X1501018D.pdf>

⁵ Turner, R. and Sears Z. (2013). *Travel & Tourism as a Driver of Employment Growth*. World Economic Forum: The Travel & Tourism Competitiveness Report 2013. http://www3.weforum.org/docs/TTCR/2013/TTCR_Chapter1.5_2013.pdf

⁶ Spasic, V., Cerovic, S., "Ekonomsko-finansiska analiza poslovanja preduzeca u hotelijerstvu I turizmu", Univerzitet Singidunum., Beograd., 2014, str.5.

Tourism is often characterised as being dominated by small-sized enterprises (SMEs) (Smith, 2006). According to Fayed and Fletcher (2002)⁷, Coccosis, (2001)⁸ tourism plays an important role in the regional development of developing countries through job creation⁹. Tourism includes industrialised sectors such as tour operators and the airlines as well as branches dominated by small-to-medium enterprises (SMEs) such as the hotel and catering sector.

The development of SMMEs has become an important strategy for economic development for most developing countries. According to GEM (2004), SMMEs are becoming more than just a source of job creation globally. Hence tourism has a potential to create small businesses and therefore create jobs¹⁰. The benefits of tourism must be manifested by local job creation and entrepreneurial activity.

Kristen and Rogerson (2002)¹¹ presented a model which explains the relationship between the nature and location of the tourism project, size and sources of investment and the policy intentions and level of support that is available for entrepreneur development, which eventually leads to job creation. Lerner and Haber (2000)¹² also identified the above factors, which are considered key influences in small tourism business development and performance.

Being a socio-economic phenomenon, tourism acts both as an engine of economic development and a social force, impacting a wide range of industries. Thus, as a demand-side phenomenon, tourism refers to the activities of visitors and their role in the acquisition of goods and services. At the same time, tourism can also be viewed from the supply side and it will

⁷ Fayed, H. and Fletcher, J. 2002. Globalisation of economic activity: Issues for tourism. *Tourism Economics* 8(2):207.

⁸ Coccosis, H. 2001. Sustainable development and tourism in small islands: Some lessons from Greece, Anatolia — *an International Journal of Tourism and Hospitality Research* 12(1): 53-58.

⁹ Munikrishnan Thevi, U, and Verakumaran, B., Job Creation In Small, Micro and Medium Enterprises (SMMEs)., *TEAM Journal of Hospitality & Tourism*, Vol.6, Issue 1, December 2009., <https://teamjournalht.files.wordpress.com/2013/05/vol612009-team-journal-of-hospitality-tourism-2.pdf>

¹⁰ Rogerson, C.M. 2001. Investment led entrepreneurship and small enterprise development in tourism: Lessons for SDI's from the international experience. *South African Geographical Journal* 83(2):105-114.

¹¹ Kristen, M and Rogerson, C. M. 2002. Tourism, business linkages and small enterprise development in South Africa. *Development Southern Africa* 19 (1):29-59.

¹² Lerner, M and Haber, S. 2000. Performance factors of small tourism ventures. The interface of tourism, entrepreneurship and environment. *Journal of Business Ventures* 16(1):77- 100.

then be understood as the set of productive activities that cater mainly for visitors.³ As such, tourism is an important source of job creation and countries are interested in its development for this reason.¹³

Fayed and Fletcher (2002) and Cocossis (2001) stated in their studies that tourism plays an important role in the regional development of developing countries through job creation.

Authors such as Morrison and Teixeira (2004)¹⁴ were also of the same opinion. According to them, tourism industry comprises of a large number of small firms, which are fragmented and, as a result, are widely dispersed. The role of government support and policy intentions can influence the economic and non-economic opportunities that are essential to the creation of conditions for developing small businesses¹⁵. However, some studies show that despite major effort by the government to provide incentives to encourage small business development and hence stimulate job creation, job creation results remain insignificant. According to Rutherford (2006)¹⁶, the government is now turning its attention to entrepreneurship development and the promotion of self-employment strategies to overcome the unemployment problem.

3. The role of tourism on employment

Tourism involves a wide range of different activities, types of establishments, employment contracts and working arrangements. It provides working people with income and working experience and therefore contributes to their social inclusion and personal development. The tourism employment pattern is characterized by notable differences between regions of a country and between seasons of the year.

¹³ Measuring Employment in the Tourism Industries – Guide with Best Practices, ISBN printed version: 978-92-844-1614-1, World Tourism Organization (UNWTO), Madrid, Spain, 2014.

¹⁴ Morrison, A. and Teixeira, R.M. 2004. Small firms performance in the context of agent and structure: a cross-cultural comparison in the tourist accommodation sector, in *Small Firms in Tourism: International Perspectives*, ed. R. Thomas, p.239-255. Elsevier: Amsterdam.

¹⁵ Lerner, M and Haber, S. 2000. Performance factors of small tourism ventures. The interface of tourism, entrepreneurship and environment. *Journal of Business Ventures* 16(1):77- 100.

¹⁶ Rutherford. 2006. Towards a development strategy for small business in tourism industry of the Southern Cape, Doctoral Thesis, University of Pretoria.

Employment is of major importance in the economic analysis of productive activities and this is true also of tourism. The focus on employment in the tourism industries is further justified by the fact that tourism industries have matured into a major consumer market experiencing increasing global and national competition, market turbulence and changes in consumer demand. These changes are deserving of attention, not only to understand the quality of the tourism products and services, but also to understand the quality in human resources – one of the major assets of the tourism industries.¹⁷

Statistics can shed light on the contribution of tourism businesses to job creation and assess the impact of public policy and private investments on the job creation potential of tourism-characteristic activities or tourism industries. Such groupings of industries are usually referred to as “sectors” even though they do not constitute institutional sectors as used in the System of National Accounts.¹⁸

Tourism is labour intensive sector, who offers opportunities for employment for persons entering the labour market for the first time or having difficulties in finding employment elsewhere. Thus tourism plays a role in providing opportunities for low-skilled workers and workers with little qualification in general, ethnic minority groups and migrants, unemployed youth, long-term unemployed, as well as women with family responsibilities who can take only part-time jobs. In spite of the variety of jobs generated in the tourism sector, there is a general perception that the tourism industries offer mostly low-skilled jobs. This is largely due to the high proportion of hospitality workers (hotels, restaurants and similar) in service occupations; and the major source of service occupations is food and beverage operations. The low annual average wages paid in hotels, restaurants and similar establishments are due to industry-specific characteristics such as paying only minimum wages because of tips and hiring a substantial amount of part-time workers. These characteristics do not relate to differences in the type of food and beverage services provided to tourists versus residents. Indeed, the low annual average wages for hotels, restaurants and similar establishments are characteristic of the food services industry in general and not unique to the tourism industry.

Tourism plays a key role in supporting developments in the national labor markets, because has real potential as a source of economic growth and

¹⁷ World Tourism Organization and United Nations (2014), *International Recommendations for Tourism Statistics 2008 – Compilation Guide*, chapter 7, UNWTO, Madrid, UN, New York.

¹⁸ *Ibid.*

job creation. For example in the accommodation industry, globally there is an average of one employee for each hotel room. One job in the core tourism industry creates about one and a half additional (indirect) jobs in the tourism-related economy. Further, there are three workers indirectly dependent on each person working in hotels, such as travel agency staff, guides, taxi and bus drivers, food and beverage suppliers, laundry workers, textile workers, gardeners, shop staff for souvenirs and others, as well as airport employees.¹⁹

4. Employment in the tourism industries

Employment in the tourism industries is also reinforced by the fact that the tourism sector has matured into a consumer market through increasing global and national competition, market turbulence and changes in consumer demand. This requires paying greater attention, not only to quality in products and services, but also to quality in human resources – one of the major assets of the tourism sector. The fact that tourism’s job-creating potential has long been recognized, employment in the tourism industries has up to now been one of the least studied aspects of tourism. Only a few countries have fully developed an advanced set of statistical procedures and derivative applications for measuring and analyzing a multitude of employment aspects in the tourism industries much needed to develop, implement and monitor efficient tourism labour market policies and actions. Statistics on employment in tourism industries should play an important role in monitoring developments and undertaking different types of analysis of the tourism labour market, provide tourism policy makers with valid information for tourism labour force planning and projections.

The impact of tourism industries on employment is brought in the following ways:

- *Direct employment in the tourism industries;*
- *Indirect employment in the sectors supplying inputs to the tourism industries (see above);*
- *Induced effect on employment as a result of subsequent rounds of spending; and*
- *Total effect on employment which is reflected in the employment multiplier, with the remark that a high employment multiplier of the tourism industries would indicate that countries facing high levels of unemployment could opt for tourism*

¹⁹ Bolwell, D. and Weinz, W. (2008), ‘Reducing poverty through tourism’, International Labour Office, Sectoral Activities Programme, Working Paper No. 266, Geneva, p. 6.

- *promotion as a possible effective means of absorbing the excess manpower.*²⁰

In terms of employment, tourism multiplier effect means that it stimulates job creation in all sectors of the area concerned. For example, to provide quality service, a hotel (tertiary sector) would most probably employ more people to look after a growing number of arriving tourists. Consequently, other sectors (primary, secondary) would then also try to cater for the growing needs of the hotel. Thus, wholesalers (secondary sector) would sell more food to our hotel which will lead to engaging more staff to work as wholesalers. In turn, this would trigger demand at the food factory down the road (primary sector) who would try to produce more food for wholesaler stocks and, as a result, the factory itself would need to employ additional staff as well.

5. Structure of enterprises and numbers of employment in the sector of hotels and restaurants in Republic of North Macedonia

The companies from the sector of hotels and restaurants, in the professional literature, meet under the name catering companies, make up the segment of the tourist offer, intended for acceptance of tourists, and they are precisely the ones that are crucial for achieving the economic results from the tourism, and therefore ruining his economic function. In essence, companies in the hotel and restaurant sector are entering the group of receptive factors for tourism development. Reception factors, or as they are still called acceptance factors, comprise the material objects and living labor.²¹ From the quality of the suprastructural and infrastructure facilities that participate in meeting the tourist needs, as well as the expertise and the way of organization and behavior of the employees in the tourism sector, the dynamics of tourism development will depend on a specific micro or macro location²².

Taking into account the data from the Table 1-general review of the development of catering, can be notice a tendency of decrease in almost all data except for the number of beds where a trend of increasing capacities is noted. This situation is mainly due to the construction of new accommodation

²⁰ Economic and Social Commission for Asia and the Pacific (1990), Guidelines on Input-Output Analysis of Tourism, ST/ESCAP/836, UN, New York.

²¹ Ackovski, N. and Ackovska, M: Policy for Tourism Development, Center for Scientific Research, FTS, Ohrid, 2005, p. 119.

²²Ackovska, M: Tourism and economic development of the Republic of Macedonia. Institute of Economics, Skopje, 2009, p. 154.

facilities and expansion of the existing ones, as well as the commercialization of certain housing facilities. There is a downward trend in the number of Catering Business Units whose number in 2013 is 1957, and in 2017 their number is 1209, according to the available data from the State Statistical Office, with the notion that the number of individual catering stores is not available.

Table 1: General development overview of catering trade and services

	Number of catering business units	Beds in catering trade and services, private rooms and vacation facilities	Employees	Total turnover, in '000 denars	Number of inhabitants per catering establishment	Value added in million denars
2013	1 957	70 297	12 770	8 419 069	1 056	6 4091)
2014	2 004	71 225	13 076	9 289 811	1 031	6 8681)
2015	2 084	72 021	14 874	10 338 132	993	7 1061)
2016*	2 212	73 168	15 209	10 836 359	936	...
2017 ²⁾	1 209	74 257	12 439	10 085 781	1 722	...

1)The data have been revised according to the new ESA 2010 methodology, and are not comparable with the previous series

2) The data on private catering establishments are not yet available

According to Gogoski R (2019) in table 2, Gogoski showed the number of employees in the service activities in R Macedonia.

Table 2: Employees in some of the activities in the service sector in the Republic of Macedonia

	2014	2015	2016	2017
Total employees in all activities in the Republic of Macedonia	501 788	519 031	534 200	548 681
Total employee only service sector	195 800	205 971	215 929	220 037
Wholesale and retail trade	85 025	87 725	92 359	92 990

Transport and storage	29 529	31 188	32 841	33 066
Accommodation and food service activities	20 076	21 468	23 050	23 073
Only accommodation	4 138	4 476	4 466	5 025
Only preparing and serving food	15 938	16 992	18 584	18 048
Travel agencies and tour operators	1 186	1 254	1 267	1 318
Information and communications	10 744	12 388	13 401	14 060
Financial and insurance activities	9 391	9 150	9 421	10 811
Real estate activities	2 135	2 334	2 442	2 465

Source: State Statistical Office, *Statistical yearbook of the Republic of Macedonia 2017*, <http://www.stat.gov.mk/Publikacii/SG2017/07-PazarNaTrudot-LabourMarket.pdf>

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The total service sector in the total number of employees in the Republic of Macedonia participates with 40.1%. Employment in the trade and transport activities is dominant (42.3% of the total employees in the service sector), while in other activities there is no significant structural increase. The activity of information and communications has some dynamics in relation to the entire service sector, from 5.5% in 2015 to 6.4% in 2017. Trade and transport activities employment is associated with low level of qualifications, so their large share can be considered as a negative factor that slows down the productivity of the service sector, that is, indirectly the impact of economic growth in R Macedonia.

Activities for accommodation and food service activities in 2017 in the total number of employees participate with 4.2% and in the total number of employees in the service sector with 10.5%. Within the activity, accommodation and food service activities with dominant participation in the employees has a part of food preparation and servicing, which participates with 78.2% in 2017. Tourist agencies and tour operators in 2017 in the

activity accommodation and food service activities account for only 5.7%. Employment in travel agencies requires a higher degree of qualification in terms of employment in food preparation and servicing. Qualifications affect productivity in an activity that is at least represented (tourist agencies and tour operators). It has indirect consequences toward weaker influence of the economic growth in R Macedonia.

From Table 2 it can be concluded that the activity of accommodation and food service activities employs a significant number of workers in relation to all employees in the service sector. It confirms the labor intensive nature of the activities of tourism and hospitality.

The ratio of employees / enterprises shows that in the activity accommodation and food service activities there is an average of 5,08 employees per company. The average for the Republic of Macedonia is 9.48 employees per enterprise. All service activities presented in the table 2 have a lower average employee per enterprise than the level of the Republic of Macedonia. This is confirmed by the fact that from the point of view of the number of employees, the dominant part of service enterprises are small business firms.

In the analyzed period from 2014 to 2017, there was a tendency of increasing the general employment in the Republic of North Macedonia. According to table 2-, we have a total of 501788 employees, of which in the sector accommodation and catering services there are a total of 20 076 employees, out of which 4 138 are employed in shelters for accommodation, and 15 938 persons are employed in catering units whose main activity is the provision of food and beverages, and a smaller part, i.e 16,804 of the total employment, is recorded in administrative and other service activities, which according to the National Classification of Occupations includes travel agencies, tour operators, reservation services within which 1 186 persons are registered. During the analyzed period, there is a gradual increase in the general employment and employment in the tourism and hospitality sectors. Thus, in 2017, the total employment is 548681 employees, out of which 23,073 persons are employed in the accommodation and food service sector.

Conclusion

The tourism labour market has a dynamic nature, i.e. high labour turnover between organisations, wide range of remuneration levels and schemes, seasonality, etc. In developing countries, such as Republic of North Macedonia there is typically high competition for tourism jobs by a large, often very young and undereducated, population.

Tourism has a great potential in generating employment (direct and indirect). Notably, the lower the leakages from the economy, the greater the tourism multiplier effect of the spending made in the local economy.

Based on the data presented for the participation of small and medium tourism enterprises in the employment of the people, it can be concluded that these companies have huge importance for the Macedonian economy and for its economic development. 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, encouraging others branches that stimulate tourism and vice versa, and professional (university) education for managers and other employees in the tourism that will ensure the required level of quality in offering tourism and catering services.

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