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THE ANALYSIS OF BUSINESS PERFORMANCE IN SMALL AND MEDIUM HOSPITALITY ENTERPRISES IN THE REPUBLIC OF CROATIA

Abstract

The role of small and medium enterprises is crucial for the European economic recovery - their number, employment capacity and value added constitute a large share in the European economy. Providing proper conditions in which small and medium enterprises can flourish is paramount for ensuring a sustained recovery and achieving prosperity for all EU citizens. In order to provide deeper understanding of small and medium hospitality enterprises business performance, the study aims to analyse data from Croatian Bureau of Statistics and author's earlier work. The data used were part of a longer scale and previously published survey

on the business activities of small and medium hospitality enterprises in the Republic of Croatia and the project named "The networking in clusters with the aim of more efficient operations of small and medium hospitality enterprises". The aim of this paper is to analyze the situation and conditions in which small and medium hospitality enterprises do business in Croatia.

Key words: business performance, small and medium hospitality enterprises, the Republic of Croatia

1. INTRODUCTION

There has been more written about small and medium business growth in recent years than any other aspect of management. One of the main reasons is the contribution of expanding enterprises to economic development and unemployment reduction, which, generally, has attracted the attention of researchers and policy makers in many countries (Bernice and Meredith,1997).

While a considerable amount is known about the factors that affect the success of small and medium-sized hospitality enterprises, this knowledge continues to be imperfect and a large number of questions remain unanswered regarding the small business sector in developing countries (Cook, 2001). One of the main barriers of achieving better business results of the accommodation industry in Croatia lies in the unfavourable structure of total accommodation capacities and the level of their quality. The offer is characterized by far too small share of hospitality enterprises (12% in 2012) and far too emphasized share of complementary accommodation capacities. Small and medium hospitality enterprises with privately owned rooms and apartments being predominate (46% in 2012). Additionally, even the average size of the hospitality enterprises in Croatia is far the biggest, compared with other European countries, which evidently does not contribute to tourism competitiveness. Small and medium hospitality enterprises are an important factor in the economic development. Considering the fact that tourism and hospitality industry are of great national interest for the Republic of Croatia, as well as the fact that there is a growing trend in the number of small and medium hospitality enterprises, it should be explored their business performance due to their importance for the development of the Croatian hospitality industry.

The small and medium hospitality enterprises category has been chosen for a number of reasons. One possibility to improve the opportunities for the poor is to provide a favorable environment for small and medium hospitality enterprises. For example, small, and medium enterprises typically have high labor intensity and thus support job creation, especially in the services sector. With 99% of businesses classified as small and medium hospitality enterprises in Europe, when grouped together, collectively have a considerable influence on both national and European economies and particularly within the hospitality industry. Recent studies on small and medium hospitality enterprises and their contribution to growth have shown that framework conditions within which they operate and the entrepreneurial culture are key factors in determining the extent of small and medium hospitality enterprises performance and consequently their contribution to macroeconomic growth. Even in the presence of a strong entrepreneurial culture, however, small and medium hospitality enterprises would struggle to perform if basic framework conditions were not present.

Therefore, considering the high proportion of small and medium hospitality enterprises within this sector, its volatility and its potential importance

to the Croatian economy, further clarification of the determinants of success should make a useful and practical contribution to business practice in the hospitality sector.

This paper is organised as follows. The following section provides a literature review. Data collection and models development are described in section three. While the findings are discussed in section four, the conclusion is offered in the fifth section.

2. LITERATURE REVIEW

The fundamental contribution of the small business sector to the overall performance of the economy is indeed a crucial motive for researchers to investigate and examine the key success factors behind this sector. Small businesses face many challenges that hinder their growth or even further cause a permanent shutdown. The rate of such growth is considerably variable and the key factors behind it require a great deal of investigation. Therefore, it is critical and extremely important to identify and examine these factors that lead small businesses to survive and succeed. Many small business studies have been undertaken to identify success factors in different countries. There has been a considerable number of studies ranging from single case studies to comprehensive surveys that explicitly investigated the factors of success of small businesses. Most of these studies concluded that business success is the result of a web of interacting factors. Small business scholars have devoted much effort to examining the variations in the birth of small firms over time, space and sector (Storey, 2000) as well as the factors which impact on small business growth and demise. A review of small business and entrepreneur literature reveals many determinants of business success and growth including entrepreneurial and environmental factors. At the same time, the 'barriers to growth' literature (Storey, 2000) identifies key barriers and problems for small firms.

In different countries different studies have been conducted in last thirty years. Duchesneau and Gartner (1990) identified three categories of factors that are thought to influence the likelihood of small business success: entrepreneurial characteristics, start-up behavior, and the firm's overall strategy. Storey (2000) agreed with Duchesneau and Gartner (1990). These three categories of factors require a homogenous well planned integration to achieve adequate growth. Barkham, Gudgin, Hart and Harvey (1996) found that it was the characteristics of the entrepreneur and the business strategies adopted that mainly determined the growth of small firms. An empirical study by Lussier (1995) investigated the predictability of small business success. Lussier developed a non-financial model that included 15 factors as independent variables tested for their significance using logistic regression. These factors were: planning, professional advisors, managers' education, staffing, family business ownership, capital, financial

control, industry experience, management experience, product/service timing, age of owner, economic timing, partnership business, minority ownership, and marketing skills. Analysis of the results suggested that only the first four factors were significant predictors of success. In their recent study, Wiklund and Shepherd (2005) investigated the Entrepreneurial Orientation of small businesses and found that a main-effects-only analysis provided an incomplete picture of performance.

There are no universally accepted standard performance measures so business organizations have to decide and choose its own performance measure that might not truly reflect its performance. Such performance measures include but are not limited to: market share, sales volume, company reputation, ROI, ROA, ROE, profitability, established corporate identity, BSC etc.

Business success can be defined in many different ways. The most commonly adopted definition of success is financial growth with adequate profits. Other definitions of success are equally applicable. For example, some entrepreneurs regard success as the job satisfaction they derive from achieving desired goals. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models.

Empirical studies of factors affecting SME success can be roughly divided into two groups according to whether they focus on a quite limited set of variables or try to capture more holistic profiles of successful SMEs. There are also some compilations of the results of previous studies of the factors contributing to firm success. Storey (2000) has compiled the results of previous studies focused on the birth, growth and death of small firms. Md. Aminul Islam, Ezaz Mian and Muhammad Hasmat Ali (2008) in their study of SMEs in Bangladesh found that products and services, the way of doing business, management know-how and, external environment are most significant factors in determining the business success of SMEs.

Nurul Indarti and Marja Langenberg (2005) identified key components to be important in analyzing the business success of SMEs which includes the characteristics of the entrepreneurs, the characteristics of the SMEs and the contextual elements of SME development. Westhead (1995) studied factors influencing the survival of 227 high-technology small firms. Ghosh and Kwan (1996) made a cross national intersectoral study of the key success factors of 152 SMEs in Singapore and 164 SMEs in Australia. Kauranen (1996) carried out a follow-up study of 37 new manufacturing firms in Finland and studied the determinants of the future success of the firm in the short term and in the long term. Yusuf (1995) explored critical success factors for small firms in several industry sectors based on the perceptions of 220 South Pacific entrepreneurs. Wijewardena and Cooray (1996) explored the importance of a set of success factors by studying a sample of 300 small manufacturing firms in Japan. Gadenne (1998) investigated the effect of various management practices on small

firm performance by studying 369 small businesses in the retail, service, and manufacturing industry in Australia.

Based on the findings of different research, the factors affecting SME business success can be classified into the different categories: characteristic of SME, an entrepreneur characteristics, strategy, external environment, products and services, customers and markets, the way of doing business and cooperation, management and know-how, resources and finance and internet.

3.   METHODOLOGY

The purpose of this study is to explore the determinants of success for small and medium hotel enterprises in Croatia. In order to identify the internal strategic factors that enabled the small and medium hotel enterprises to gain their competitive advantages and have significant economic results, we applied a methodological approach that includes the following steps:

- Data collection and calculation of various performance indicators.
- Developing and sending a questionnaire to the small and medium hotel enterprises aiming to identify their internal strengths and weaknesses, and also external opportunities and threats.
- Elaboration of the answers and presentation of the results.

Data were collected by means of mail survey questionnaire completed by owners or their general managers of small and medium- hotel enterprises located across Croatia. The target population for relevant research is defined as a set of small and medium hotel enterprises registered in the Republic of Croatia that published business results for year 2012 and it was taken from the financial data of FINA (Croatian Financial Agency). A list of hotels in Croatia was used for the selection of the sample, available at the web address.[1] The said websites in June 2012, found 350 small and medium hotel enterprises. A random sample was formed from a defined frame of choice. The sample using a random number generator selected 250 small and medium hotel enterprises, and small and medium hotel enterprises were contacted by email for willingness to participate in the study, some were contacted by telephone, and a some of small and mediumhotel is interviewed by the author personally. Seventy two (72) questionnaires were answered properly. This response rate (28.8%) is considered to be satisfactory and sufficient for the adoption of the relevant conclusions.

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[1] www.croatiahotelsguide.com, www.omh.hr (16.6.2012.)

4.   RESEARCH RESULTS

Among the analyzed enterprises, 32% were small enterprises and in 68% were medium enterprises. Regarding the form structure of the analyzed enterprises 44% were joint stock company, 53% limited company and 3% were craft.While considering their geography position, 55% belongs to Dalmatia, 15% to Coastal Croatia, 3% to Lika and Gorski Kotar, 20% Northern Croatia and 7% Continental Croatia.

Besides defining the profile of enterprises, it is necessary to get a picture of the profile of the respondents. In the sample was 79% male while proportion of women is not at a high level (21%). Qualification of the respondents is shown in Figure 1.
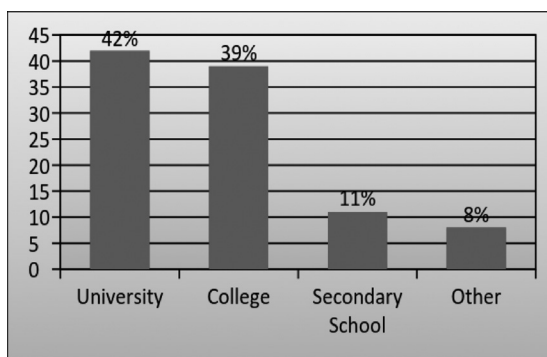
Figure 1. Qualification of the respondents

Respondents are persons familiar with all business aspects of small and medium hotel enterprises. The workplace of the subjects were determined primarily the size of the hotel enterprise, and respondents were managers 60% , the owners of the hotel enterprises 13%, sales managers 17%, chairman of the board 3% and directors 7%. Their distribution by years of employment is shown in Figure 2.
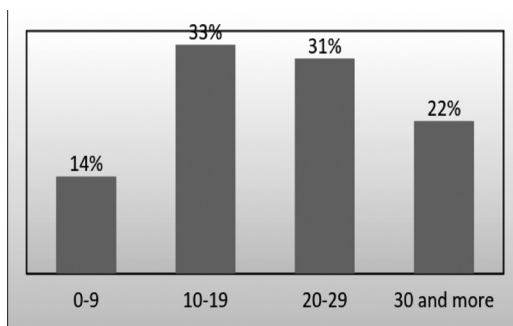
Figure 2. Distribution of respondents by years of employment

Although it was not identified specifically as such, a SWOT analysis was carried out for the respondent's business, such as the one recommended by Madu and Kuei (1993), who find that an awareness of the strengths and weaknesses of the firm can confer upon it the advantage of knowing how to position itself in the market vis a vis its competitors.

Respondents were required to answer whether the specific aspect of their business is strength (weakness) or not and whether specific items are opportunity (threat) or not. The respondents pointed out the original vision of the hotel enterprise as the most powerful inner strength, 85% of them. The increase in individual tourism is recogniyed by 76,4% of respondents as an external opportunity. Price competitiveness is the largest own internal weaknesses and inadequate macroeconomic policy with 69% of the largest external threat. The Table 1 presents the results of a SWOT analysis in small and medium hotel enterprises.

Table 1.

SWOT analysis of strengths, opportunities, weaknesses and threats in small and medium hospitality enterprises

INTERNAL STRENGTHS	%	INTERNAL WEAKNESSES	%
- affordable macro and micro location	80,6%	- absence from the world tourist market	37,5%
- earlier gained market recognition	75,0%	- below the average profitability	34,7%
- the original vision / concept / hotel	84,7%	- inadequate human resources	37,5%
- privatization and corporate restructuring	47,0%	- the use of expensive investment capital	45,8%
- knowledge of the technology hot. business	80,6%	- price competitiveness	65,3%
EXTERNAL OPPORTUNITIES		EXTERNAL THREATS	
- insufficient competition in similar. certified. hotel	51,4%	- political and other instability	62,5%
- increase in individual tourism	76,4%	- inadequate macroeconomic policy	69,4%
- easy adjustment of various categories of tourists	69,4%	- insufficient financing sources investors	50,0%
		- imbalance of tourism supply and demand	37,5%

Source: Krželj Čolović, Z., Strateško udruživanje malih i srednjih hotelskih poduzeća, doktorska disertacija, Fakultet za menadžment u turizmu i ugostiteljstvu, Opatija, 2014., 223.

Awareness of the firm's strengths, weaknesses, opportunities and threats can help identify problems that need to be tackled, and early corrective action should prove

to be beneficial in the long run. In Croatia, managers of small and medium hospitality enterprises, other than the above mentioned, stated political and other instability as an external threat, and as an external opportunity easy adjustment of various categories of tourists. Furthermore, they emphasize favorable micro and macro location and technology understanding of hotel operations as its inner strength. According to the results, it can be concluded that managers are not aware of their disadvantages regarding knowledge and application of modern technology in business. The paper besides SWOT analysis carried out analysis of financial indicators. The largest part of the data that was used to calculate the performance indicators obtained from the Croatian financial agencies and refers to the five-year period between 2008 and 2012.

Indicators of financial analysis are rational, reference numerals which display business performance. In this paper the performances of enterprises are analyzed based on the calculation of indicators: liquidity ratio, turnover coefficient of total assets, the rate of equity capital and the total cost of operations.

Average values of the liquidity ratio are shown in Figure 3. The coefficient is measured by the ratio of current assets to current liabilities. It is believed that current ratio less than 1.5 implies the possibility that the enterprises left without funds to meet short-term liabilities.
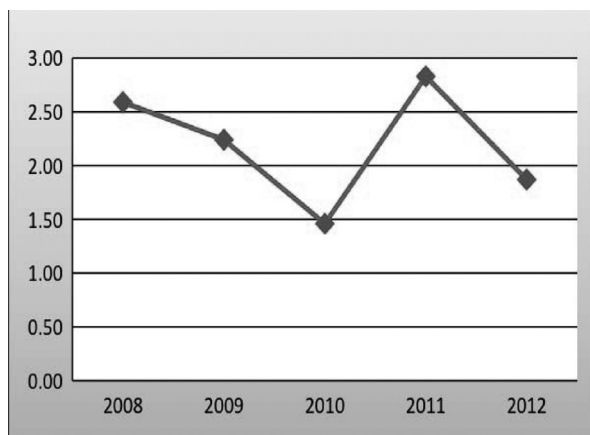

Figure 3. Average values of the liquidity ratio in SMHE's

The maximum value of this ratio was recorded in 2011 and it amounted to 2.83. While 2012 noted its decrease by 40% and the average value of the liquidity ratio was 1.87. The average liquidity of analyzed enterprises was questionable in 2010 because at that time it was 1.46

Indicators of cost efficiency ratio are calculated based on the profit and loss account and show how much revenue is generated by expenditure. Average

values of the cost efficiency ratio are shown in Figure 4. Average values of indicators of cost efficiency ratio are expressed in percentages and as seen in the figure values are less than 100. This means that the total expenditure in excess of total revenue and that analyzed small and medium hotel enterprises are not cost-effective. Furthermore, it notes of growing trend of the average cost from 2010. Total revenues was 2% less than the total expenses in 2012, that is a significant increase compared to 2010 when revenue was 9.5 % less than expenses.
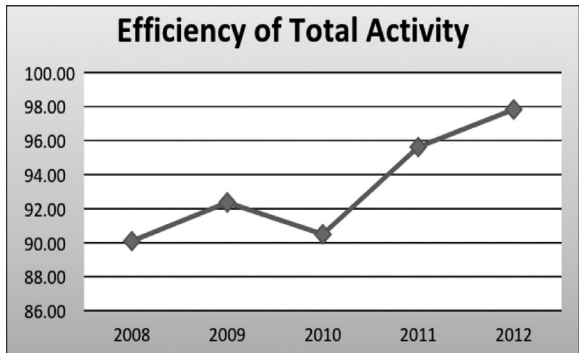
Efficiency of Total Activity

Figure 4. Average values of the cost efficiency ratio in SMHEʼs

Indicators of activities point to velocity of circulation of property in the business process, and are calculated on the basis of the relation turnover and average. Turnover ratio of total assets tells how many times the assets of the enterprise turn in one year, or how much the company successfully using the property in order to create revenue. Figure 5. presents average values of turnover ratio of total assets of small and medium hotel enterprises.
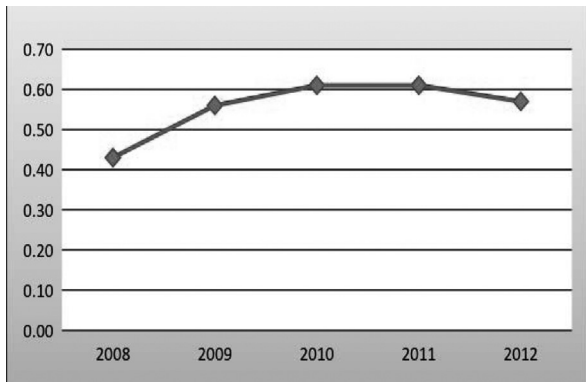
Figure 5. Average values of turnover coefficient of total assets in SMHEʼ s

Turnover ratio of total assets is calculated according to the ratio of total income and total assets. Preferably, the ratio is greater than 1, i.e. total income exceeds the value of the available property. In Croatia, the average value of the coefficient for the observed small and medium hotel enterprises were in the whole period of less than one. The coefficient value does not fluctuate and the value was around 0.6

The rate of equity capital shows the power of the height of its share in the total sources. If a share exceeds 30% is considered very good. Figure 6 shows the average rate of equity capital to small and medium hotel enterprises in Croatia from 2008 to 2012. Although it can be observed decline in the average rate, in all the years of the study period, the average rate is greater than 30%, so it can be concluded that the share of own capital in total sources is very good.
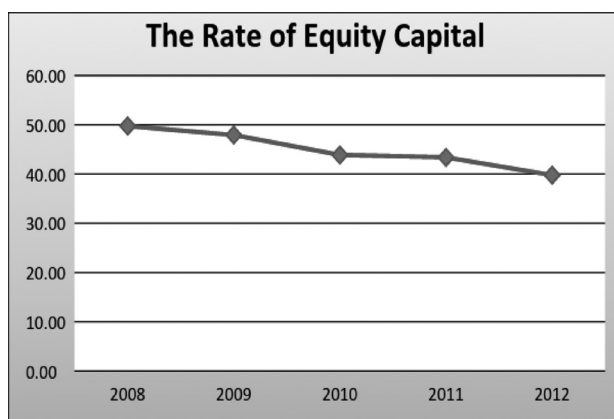

Figure 6. Average values of rate of equity capital in SMHEˈs

5. INSTEAD OF CONCLUSION

Small and medium hospitality enterprises are an important factor of economic development. Considering the fact that tourism and hospitality industry are of great national interest for the Republic of Croatia, as well as the fact that there is a growing trend in the number of small and medium hospitality enterprises, their business performance has been explored due to their importance for the development of the Croatian hospitality industry.

The target population for the relevant research is defined as a set of small and medium hotel enterprises registered in the Republic of Croatia that published their business results for year 2012 and it is taken from the financial data of FINA (Croatian Financial Agency).

The research results have shown the following:

- The original vision of the hotel enterprise is what respondents point out as the most powerful inner strength,

- The increase in individual tourism is recognized by respondents as an external opportunity.

- Price competitiveness is the greatest internal weaknesses,

- Inadequate macroeconomic policy is the greatest external threat,

- Managers of small and medium hospitality enterprises, apart from the above mentioned, stated political and other instability as an external threat, and as an external opportunity easy adjustment of various categories of tourists. Furthermore, they emphasize favorable micro and macro location and technology understanding of hotel operations as its inner strength,

- According to the results it can be concluded that managers are not aware of their disadvantages regarding the knowledge and application of modern technology in business.

- Besides the SWOT analysis, the analysis of financial indicators is carried out in the paper. The largest part of data that was used to calculate the performance indicators was obtained from the Croatian financial agencies and refers to the five-year period between 2008 and 2012. Two of the analyzed indicators in average values have shown good results: the liquidity ratio and the rate of equity capital. In Croatia, the average value of the coefficient for the observed small and medium hotel enterprises were in the whole period of less than one. The coefficient value does not fluctuate and the value was around 0.6. Efficiency of total activity notes growing trend of the average cost from 2010.

Further future research should be conducted on a larger number of hospitality enterprises, also including the large hospitality enterprises. It will be interesting also to compare business results of SMHEs with business results of the whole hospitality industry in Croatia.

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ANALIZA POSLOVANJA MALIH I SREDNJIH HOTELSKIH PODUZEĆA U REPUBLICI HRVATSKOJ

Sažetak

Uloga malih i srednjih poduzeća je ključna za europski gospodarski oporavak – njihov broj, mogućnost zapošljavanja i dodana vrijednost čine velik udio u europskom gospodarstvu. Stvaranje odgovarajućih uvjeta u kojima se mala i srednja poduzeća mogu razvijati iznimno je važno za održivi oporavak i postizanje prosperiteta za sve građane Europske unije. Kako bi se bolje razumjelo poslovanje ovih hotelskih poduzeća, cilj je istraživanja analiza podataka Državnog zavoda za statistiku i podataka iz prethodnoga rada autorica. Podaci su dio većeg i prethodno objavljenog istraživanja o poslovanju malih i srednjih hotelskih poduzeća u u Republici Hrvatskoj i projekta „Udruživanje u klastere s ciljem efikasnijeg poslovanja malih i srednjih hotelskih poduzeća". Cilj je rada analiza stanja i uvjeta u kojima posluju mala i srednja hotelska poduzeća u Republici Hrvatskoj.

***Ključne riječi:** poslovanje, mala i srednja hotelska poduzeća, Republika Hrvatska.*

***JEL klasifikacija:** L25, L83*