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SMEs In Tourism: An International Review

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Overview of SMEs in Tourism

Ireland has become known as the Celtic Tiger due to average annual GNP growth of 9 percent during the 1990s. The reasons for this growth are many and varied and tourism and tourism firms have played no small part in this rapid growth. In total the sector sustains approximately 150,000 jobs (or job equivalents) amounting to 8.6 percent of total employment (Bord Failte, 2001). In some ways the tourism sector is representative of the broader industrial profile of Ireland with a number of large international firms but the majority of firms are SMEs. Both types of firms have gained from high levels of growth, increasing wealth and a rising international profile. With overseas tourist numbers doubling from 3.1 million in 1990 to 6.3 million by 2000 (Bord Failte, 1991 and 2001), most tourism sub-sectors gained and there have been a number of structural changes some of which are discussed below.

The first thing that has to be noted is that there is extremely little research conducted on SMEs within the tourism industry in Ireland. Focus, both from a policy and an academic point of view, has been on the demand rather than the supply side. This involves research and comment on public policy (for example Deegan and Dineen, 1997, 2000, Deegan 2002) and numerous surveys of tourists by Bord Failte the former national tourism authority. From an economic perspective, concentration is on the impact of the sector on the economy (Webster et al 2002) and to a lesser extent the affect of public funding (Hannigan, 1994). Even in the terms of reference of the newly established Tourism Review Group there is sparse mention of firms with the emphasis on analyzing the types of tourists visiting and their economic contribution, evaluating policy and international competitiveness of the sector and looking at the impact of funding (<http://www.tourismreview.ie/termsref.htm>). Where tourism firms do appear, in the section that investigates the strategy for future sustainable development of the sector, the heading is business capability with a focus on human resource development. However on a positive note it must be mentioned that a number of submissions to the Tourism Review Group did identify that key elements of government strategy should investigate this SME sector and in particular the issues of clustering and networking were mentioned (<http://www.tourismreview.ie/submissions.htm>).

There is a glaring gap in terms of investigating issues such as the structure and organisation of the sector, the role of tourism firms in the development of local economies, the effect of an increasing number of international firms and inter-firm relations. Part of the reason for this may lie in the difficulty of determining sector boundaries but also relevant is the fact that 'Ireland's industrial history since the 1950s has predominantly focused on the attraction of international firms' (Mottiar and Ingle, 2002). Whatever the reason, as Deegan (2002) declares, 'the new tourism paradigm has emerged and "best practice" in international tourism policy is moving from an emphasis on advertising and promotion to a focus on supply side measures that facilitate innovation

and development within small firms in tourism' (p.40). We must begin to research in this important area. What follows is based on the limited research and data that is available.

Structural change appears to have moved this sector from one almost wholly comprising of small firms to a more fragmented industry with a number of quite big firms and then the majority of firms remaining in the SME category. For example in the hotel industry there has been a shift from small family owned properties to an increasing number of larger and often internationally owned hotels. This trend is evident in Dublin and the other main cities of Galway and Cork where international chains such as Holiday Inns, Quality Hotels and the Hilton currently operate. Irish owned hotel groups have also increased their numbers of properties and the merger of the Jury and Doyle Groups in 1998 created the country's largest hotel group (Gibney, 2002). It should be noted though that this trend is not mirrored in rural areas where smaller family owned hotels still dominate.

The travel agency business in Ireland has also undergone transformation from a fragmented and localised industry with few large operations before the 1990s to a market which is now dominated by three operating groups which account for over 90 percent of the Irish air-inclusive tourist market (Mintel, 2001). This reflects the vertical integration which followed UK acquisition of Irish businesses.

Since the 1980s there have also been considerable changes in the B&B or guesthouse sector with an increasing number of purpose built guesthouses which are open year-round. During the period of high economic growth this sector has come under increasing competition from the one and two star hotel market. The self-catering sector grew steadily over the 1990s considerably aided by government funding as discussed below.

Overall the tourism sector in Ireland remains dominated by small firms but in a period of high economic growth there is evidence of a number of changes that are occurring. Some sectors, primarily hotels, restaurants and travel agents, are facing increasing international competition. There is also evidence of some Irish firms consolidating in particular in the hotel and pub sub-sectors. In terms of domestic providers, sectors such as hostels, self-catering properties, catering and restaurants and B&Bs are competing with an increasing number of domestic providers.

Key issues:

- Extremely sparse literature on tourism SMEs
- Predominantly small firms
- Structural change in the tourism industry which has resulted in more competition
- Increasing number of international firms especially in hotel and travel agency sub-sectors

The Public Policy Landscapes

Tourism policy in Ireland is administered from the Department of Arts, Sport and Tourism. Policy layers are at national and regional level although most key decisions are

made at the national level. Key areas of involvement include funding, marketing and training.

A new tourism development authority called Failte Ireland has been established since May 2003. It will encompass the activities of the former national bodies of Bord Failte and CERT which were responsible for marketing and training respectively. The primary objective of this new body is 'to promote tourism within and to the state and the development of tourism facilities and services, including the promotion of training, human resource and marketing skills development in the tourism sector' (O'Donoghue, 2002, p.2). The marketing of the country is the responsibility of Tourism Ireland Ltd. which is an all island body established under the Good Friday Agreement.

In terms of funding, tourism firms have gained from general small firms schemes such as the LEADER scheme which is available for rural firms. More specifically during the 1994-1999 National Development Plan €28 million (£652m) was invested in Irish tourism (Department of Tourism and Trade, 1993). Much of the emphasis in this round of funding was on improving the tourism product. On a much smaller scale, the 2000-2006 National Development Plan committed €130 million of public sector funding to the sector (Bord Failte 1999). One of the main focuses of this plan is on clusters of existing attractions. This level of state support since the mid 1990s has provided a significant financial boost to the firms in the sector.

At a regional level there are regional tourism authorities which engage primarily in the promotion of tourism and act as information sources for visiting tourists in the respective region. However they are also responsible for encouraging tourist businesses in their area to avail of funding and opportunities that are available, and to work with Bord Failte to achieve the objectives of the national development plan.

Tourism policy maintains a top down approach. This can be exemplified with study of a recent policy to rejuvenate seaside resort areas. Generous tax incentives were provided for investors to build tourism facilities. While some general facilities were developed, in the main focus was on the provision of holiday accommodation in the form of urban style housing estates. The policy of tax incentives was national but the local authorities had regional power over planning permission but it appears that little restraint was exercised in the rush to capitalise on the incentives. It seems that this national policy did not necessarily serve the very diverse needs of the fifteen local seaside resorts in question (for more discussion of this scheme and its effect on one of the areas see Mottiar and Quinn, 2001).

Key issues

- The last decade, probably due to high national economic growth, has been a period of high levels of government (and EU) funding of the sector.
- Government policy is directed primarily at marketing, training and funding
- Public policy in the tourism sector is primarily national

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Conclusion

Tourism SMEs in Ireland have experienced quite significant change over the last decade as a result of high levels of economic growth, a doubling in the number of tourists coming here and a high level of government financial support. The effects have been an increased market, increased competition and structural change across the industry. As the economy slows down, government spending is increasingly constrained and international tourism flows become more limited, it will be interesting to observe the implications for the sector in the coming years. Observation of this sort will necessitate a shift in both public and academic research to focus on the supply side of the industry.

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