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# **ENTREPRENEURSHIP IN TOURISM AND SPORT**

**Edited by**

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## From the Editors

Tourism and sport sectors demonstrate a strong entrepreneurial profile being composed of private ventures relying upon owner's creativity and market opportunity seeking, proactive approach to customer preferences and to environmental uncertainty. Entrepreneurial activity is, however, not only a matter of private value creation and rent seeking but it always plays a vital role in meeting wider societal interests and needs. The latter is very much relevant for tourism and sport entrepreneurship as it contributes to economic development and shapes identity and brands of local communities, regions and nations.

This issue of JEMI discusses Entrepreneurship in Tourism and Sport understood as a process of venture creation, growth and competitive advantage in tourism and sport, as well as the importance of tourism and sport enterprises for development at local, regional and national levels with the associated policy implications. The articles included in this issue offer valuable insights into the Entrepreneurship in Tourism and Sport as an economic phenomenon and object of research. The Authors' contributions are directed at two major areas, namely: 1) entrepreneurship in tourism sector and 2) entrepreneurship in sport sector.

The first thematic block discusses entrepreneurial and innovative activity in tourism sector. Elif Bascavusoglu-Moreau, Sebastian Kopera and Ewa Wszendybył-Skulska present the role of creativity in development of innovation in tourism as well as factors that improve it. Tourist businesses realize how important an organizational culture that encourages development of creativity is. Marta Najda-Janoszka studies the innovative activity of small tourist enterprises which cooperate with local institutional partners. Her article presents the empirical findings regarding inefficiencies in cooperation in innovation between tourist enterprises and local institutional agents. Magdalena Kachniewska tries to find rationale for tourism cluster formation in Polish tourism destination areas, to formulate the definition and main attributes of tourism cluster and to compare these attributes with the main characteristics of Polish regional and local tourism organizations in the context of their possible coordinating role within the new tourism clusters. Aleksander Panasiuk presents the role of personnel in development of regional tourism economy and identifies the human relationship models. He concludes that from the institutional point of view, pro-innovative activities in regional tourism economy should be led by tourist companies on the micro

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level and by regional self-government and regional tourist organizations on the mezzo level. Another parallel form to the operation of regional tourist organizations could also be tourist clusters. Karolina Nessel undertakes an exploratory research to verify to what extent the common framework of analysis may explain an internationalization path of SMEs in tourism sector. Her research seeks to match the firm's internationalization characteristics with considerations of two dominant theories of SME internationalization: stage models of gradual internationalization (so called behavioural models) and models of early and rapid internationalization (businesses called 'born globals' or 'international new ventures'). Ludmila Smardova and Lubos Elexa identify the main burdens of doing business perceived by Slovak family-owned hospitality businesses as well as they assess development perspectives for family businesses in Slovakia. Their article is focused on business environment evaluation based on the perception of family-owned hospitality businesses. Marlena Bednarska and Marcin Olszewski investigate students' attitudes towards career in tourism and indicate the implications of these attitudes for tacit knowledge management. They prove that students' attitudes towards tourism careers are significantly influenced by previous work experience and satisfaction with the studies and that majority of students plan short-term career in tourism, which entails tacit knowledge leakage outside tourism sector.

The second thematic block presents entrepreneurial activity in sport sector. Elżbieta Marcinkowska based on current financial statements from KSP Polonia Warszawa, analyzes the liquidity and debt of this entity. She found that qualified and professional management is crucial for the organization and that the knowledge of sport organization is a key to its efficient management. Marcin Gębarowski describes a concept of promoting selected brands (based on the EURO 2012 event). He identifies the scope of using ambush marketing forms in relation to Polish consumers and finally, he presents results of research which illustrates differences in conceiving the brands of both official sponsors and of those, to whom one can attribute a name of ambushers.

We thank the Authors and Reviewers for their contributions and we believe that JEMI issue in Entrepreneurship in Tourism and Sport will be of relevance both for researchers, entrepreneurs, students and policy-makers.

**Małgorzata Bednarczyk**

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# The Role of Creativity in Development of Innovation in Tourism

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## **Abstract**

*Creativity, innovation and entrepreneurship are slogans that have become an integral part of modern tourism economy. Creativity and innovation of tourism economy as well as the meaning of creativity in tourism business are intensely discussed. Today, creativity is being frequently analyzed as a basic feature of actions performed on a daily basis in terms of both personal and professional life, a feature that every employee is required to possess. It means that employers and, above all, the education system must feel it necessary to develop certain conditions in which human creativity can be shaped, which is understood as a system that enables us to adjust to constantly changing environment and take a risk to apply new solutions to particular problems. The article aims to present the role of creativity in development of innovation in tourism as well as factors that improve it. The analytical part of the article will concentrate on the analysis of, inter alia, two significant groups of creativity determinants: factors related to availability of qualified staff on the local labor market as well as info-structure of tourism businesses.*

**Keywords:** *creativity, innovation, IT, cooperation, tourism.*

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## **Introduction: creativity and innovation**

In recent years creativity has seemed to be a significant aspect in processes of initiation, realization and commercialization on the market of innovation. The expressions of innovation and creativity are mis-equated with each other. We can briefly say that creativity means an idea, whereas innovation denotes an idea including its value. Being creative is an ability to imagine things that have not existed so far. It also means searching for new solutions using new forms of labor. Creativity may stop at the level of human mind. Innovation, however, must bring a measurable effect.

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This, obviously, does not mean that the two terms cancel each other. According to Altshuller, innovation is a complex phenomenon, a set of abilities, a different way of organization, synthesis and expression of knowledge, perception of the world and creation of new ideas, perspectives, reactions and products. The author sees a necessity of creative processes in innovation and stresses the relation between innovation and creativity (Altshuller, 1986, p. 6).

Creativity is a relational and context phenomenon – both its chances of forming and later demonstration as creative and innovative actions take place in interactions with other people and the context of action. In order to ensure that creative actions are taken in a great scale and result in innovations, it is necessary to have certain conditions that encourage people to think this way – “an atmosphere for creativity”, without which there is no real chance to apply innovation actions and make them last.

Therefore, creativity is a source of innovation, and its development is fostered by a proper organizational culture of an organization that should be open to any changes and new ideas of its employees, accept the right to make mistakes and become ready to take a risk related the creation of a new innovation value chain. Toyota is a perfect example of an enterprise where such culture has been successfully implemented. A model of Toyota organizational culture prefers creativity and eventually innovation that is strictly connected with the Japanese philosophy of Kaizen, focusing on an approach to continuous improvement of all processes within an organization. What is important, it applies to each member of the organization – from a manager to a front-line employee (Liker and Hoseus, 2008, p. 135). This forms the basis of the Kaizen philosophy and Toyota’s huge success was built on is a conviction that everyone has some unused skills and abilities, discovery and application of which may bring some rational profits for the company.

More and more tourist businesses realize how important an organizational culture that encourages development of creativity is. The leaders in the field are especially big businesses that are applying employee gratification programs that reward employees for their good and valuable ideas. Hunting and motivating the most skilled and developmental employees to improve their qualifications, pointing the path of development and a possibility of further education, e.g. trainings, studies or training programs at home or abroad, they all serve to develop creativity. As it may appear, small and medium-sized businesses have limited possibilities in this respect. However, their size and thereby a fewer number of employees should give supremacy in development employees creativity and hunting the most talented ones.

## Literature review

Creativity of both employees and entrepreneurs translates into reaching a higher level of the new introduced innovative solutions (Table 1). Moreover, creative employees are more open to cooperation in creating and developing innovative solutions (Regional System for Innovation Support, [www.rswi-olsztyn.pl](http://www.rswi-olsztyn.pl)).

**Table 1.** Internal factors directly determining building an innovation value chain in tourism

<p><b>Factors resulting from entrepreneur's personality:</b> Creativity, Openness to innovations, Desire to differ from others, Organizational skills.</p>	<p><b>Factors related to managers' experiences:</b> Education in the field, Knowledge of foreign languages, Gained occupational skills, Work experience, Experience in management, Ability to organize work with people, material motivation, a need for economic success.</p>
<p><b>Factors related to the staff:</b> Ambitious and educated staff, Creativity, Openness to innovation, a sense of community of interest, identification with the company, Positive evaluation as for the entrepreneur, Competent organization, involvement in innovative actions, general conditions of work and gratification.</p>	<p><b>Factors related to direct market environment:</b> Customers' expectations as for innovations, Cooperation with customers, Innovation of competitive businesses, No limitations when it comes to the access to market, Situation on the labor market.</p>
<p><b>Factors arising from the location of tourist businesses:</b> Limitations from the environment protection, Necessity of cooperation with local authorities, Possibilities of cooperation with the institution of higher education or institutions of R and D configuration of the infrastructure.</p>	<p><b>Past and present results of tourist business activities:</b> Sale value and dynamics, Financial result, Financial liquidity, Export value, Commitment to suppliers.</p>
<p><b>Legal and financial conditioning:</b> Business registration law, Tax law, Conditions of taking and repaying loans, Customer authorization, Legal protection of intellectual property.</p>	

**Source:** Bednarczyk, Malachovsky, Wszendybył-Skulska, Strategic directions of tourism development. The cases of Poland and Slovakia. Retrieved from: [www.rswi-olsztyn.pl/index.php?pokaz=189and186=186andid\\_menu=186](http://www.rswi-olsztyn.pl/index.php?pokaz=189and186=186andid_menu=186).

Everyone is able to work creatively and solve problems. However, the man or the environment is not always able to work out a mechanism to release such abilities on a continuous basis. However, if such mechanisms are worked out, entrepreneurs' innovative potentials of their organizations could be huge. Even if a single employee does not show great abilities except for the abilities to introduce minor, incremental innovations, the total of such actions may be impressive.

However, creativity is not the phenomenon of individuals working alone, but a social system in which actors interact and affect each other (Uzzi and Spiro, 2005, p. 448). Relations between actors facilitate the flow of information and knowledge, which has a great significance as far as stimulation of creativity is concerned (Bauer, Grether and Leach, 2002, p. 156). Employees of tourism enterprises can exchange information with each other (inside the company) or they can reach for the information and knowledge accumulated in the external environment. Because of knowledge dispersion, in order to provide the effectiveness of information processes it is necessary to link knowledge from different institutions (Kowalski, 2010, p. 11). It directs the attention of managers and owners of tourism enterprises toward information technologies, which support acquisition of knowledge from external sources (also thanks to strengthening the relationships with partners, which "opens" the access to their knowledge).

The basic function of information technologies is to enable and facilitate the handling of information streams (Lewandowski and Kopera, 2009, p. 211). When skillfully employed, they reduce the negative influence of physical distance on knowledge transfer effectiveness (Papazoglou, Ribbers, and Tsalgatidou, 2000, pp. 157–158), improve communication with environment, cause increase of knowledge exchange, improvement of learning processes, and development of new, complex interactions between individuals (Lazoi et al., 2011, p. 398-399). In this context it is worth noticing that ICTs may also influence an availability of well-qualified personnel on the local tourism market, which was demonstrated in (Kopera and Wszendybył-Skulska, 2012).

Tourism enterprises can initiate activities aimed at development of internal and external info-structure. They can also use info-structure developed by external organizations. The importance of the activities of local self-government, and public administration regarding creation of the networking environment – facilitating interactions and cooperation between enterprises, educational and research institutions, as well as self-government institutions has been discussed in: (Kopera, 2011, pp. 540–541) and (Novelli, Schmitz, and Spencer, 2006, p. 1151). The current paper will present and discuss the correlation between development of external info-structure by

SMTEs (small and medium-sized tourist enterprises) (aimed at facilitation of information streams between the organization and external entities) and the creativity of their personnel.

### **Research methods**

The results presented in the paper were gathered in the course of the multi-year research project: “Managing innovative value chains in tourism regions”. The project was aimed at identification of determinants influencing innovative activities of micro, small and medium tourism enterprises. It was assumed that innovation in the knowledge based tourism economy is achieved through application of the open innovation model, where the final result – the innovation – appears in the course of close cooperation of the main regional stakeholders. Thus, when observed from the SMTE perspective, innovation processes are determined by internal factors (innovation capabilities of tourism enterprises) as well as external factors (quality of the regional business environment, including regional cooperation platforms). All adequate factors have been identified and included in the initial research model. The presented paper refers to the factors from the internal group (creativity of the personnel and IT support applied by enterprises), as well as from the external one (availability of the well-educated staff on the local market and the quality of the tourism educational environment in tourism regions).

The initial research model has been operationalized to enable empirical research, which has been carried out using the survey method. The survey was conveyed among tourism enterprises from two neighboring voivodeships: Małopolska and Śląsk, which together form a southern region of Poland (NUTS 1). At the same time they belong to the most attractive tourist destinations in Poland. To assure comparability with the results of the previous research project, enterprises representing travel agencies and HORECA subsectors were chosen to participate in the study. Out of the whole population a random sample was drawn. Considering the structure of the population, stratified sampling was applied. The research sample contained 420 hotels, 411 restaurants and 238 travel agencies. This group was approached via mail with questionnaires. Respondents were asked to answer the questions and send the questionnaire back to the research team. Out of 1069 questionnaires sent only 60 were sent back. 5 of them were incomplete, which excluded them from further investigation. Finally, questionnaires from 55 enterprises were included in the further procedure.

The results were statistically described and analyzed. For description: frequency distribution and for correlation analysis: Pearson Chi-square and Spearman's rank correlation coefficient were applied.

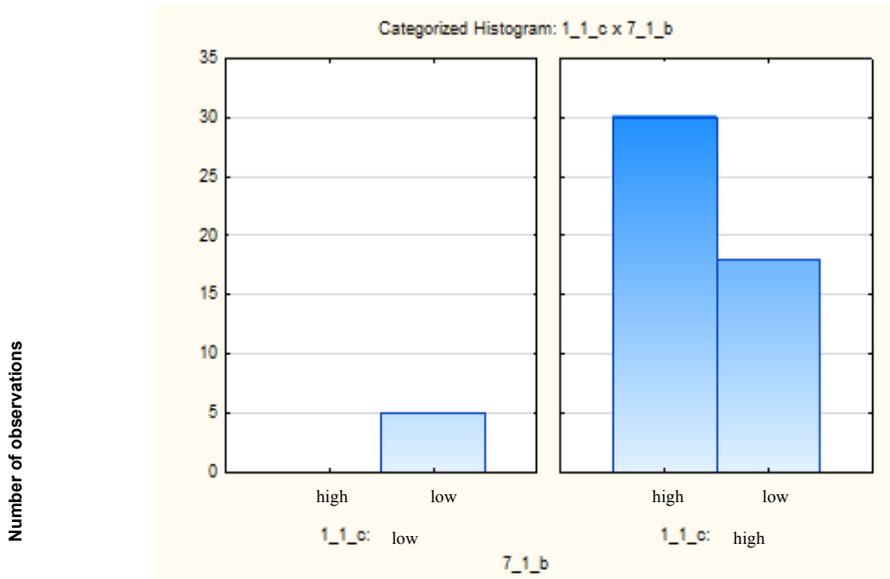
Due to small number of the returned research questionnaires the results cannot be treated as representative. It means that all the statements formulated in the course of their analysis should be treated as hypotheses requiring further investigation.

## **Analysis**

Against the background of the foregoing considerations on the importance of creativity in development of entrepreneurship in tourism, a fair interpretation of the results of the level of one of the most critical components of human capital in tourism can be made.

The results of the studies are part of much broader diagnostic analyses of the construction of an innovative value chain conducted by the Team of the Faculty of Management in Tourism at the Jagiellonian University in 2011-2012 under the supervision of professor M. Bednarczyk.

The analysis of the responses provided by the surveyed entrepreneurs showed that in most cases they evaluate creativity of their employees at the secondary level, which means that unfortunately employers' business needs remain unmet in this field. And yet, creativity of both employers and their employees is a feature that is essential in building and developing capacity for innovations of enterprises and regions. However, the level of employees creativity is dependent on many factors, including, inter alia, the availability of skilled human resources in the market. It is evidenced by the results of the studies ( $\chi^2=7,2$ ;  $p<0,00$ ;  $\varphi=0,36$ ) confirming the existence of a statistically significant relation between the level of creativity and availability of talented and creative staff in the market. Among the entrepreneurs that evaluated higher availability of creative staff, the vast majority were those who at the same time assessed the level of creativity of their employees more highly (Figure. 1). At the accepted level of significance, therefore, the occurrence of a difference between the ratings on these two aspects was confirmed, which led to the hypothesis claiming that the level of employees creativity depends on availability of creative personnel on the market. The value of chi-square statistics for the dependence of the level of employees creativity with respect to availability of creative personnel on the market shows that there are statistically significant differences ( $p<0.00$ ). Higher availability of creative staff accounts for a higher level of creativity of those employed in the surveyed enterprises, as illustrated in the histogram below.



**Figure. 1.** Histogram of distribution of ratings of employee creativity (1\_1\_c) with respect to availability of creative staff on the market (7\_1\_b)

Source: Bednarczyk (2013).

In addition to the assessment of the level of employee creativity, the respondents were also asked to assess the changes that have taken place in this regard in the past three years. Unfortunately, half of the respondents claimed there have not been any significant changes in the level of employees creativity. It is highly disturbing as it may mean that there are no appropriate motivation systems to encourage employees to develop their creativity. The primary responsibility of entrepreneurs willing to develop their innovative potential should be to develop mechanisms to stimulate both the entrepreneurs and the employees to act creatively. Creativity must be developed continuously so that it could become a potential to build innovation in tourism. It is not only businesses but also schools and colleges that are responsible for it. The system of formal education that should teach and develop creativity.

In the course of the study the correlation of IT development of tourism enterprises and creativity of their personnel was also investigated. As mentioned above ICTs applied by SMTEs facilitated access to high qualified personnel on the local market. In the current study the subject of deeper investigation was the association of IT support for cooperation and collaboration with external entities in development of new products, services and knowledge applied by

tourism enterprises and the level of creativity of their personnel. Based on the collected data the correlation between both factors has been proven (at  $p < 0.05$ ). The staff of enterprises which developed a higher level of IT support for external cooperation and collaboration was more creative than the staff of other organizations. Based on the argumentation presented earlier, it can be assumed that extensive info-structure is a factor that facilitates creativity of employees. However, using the empirical material collected in the course of the study, the causal relation cannot be unequivocally stated. For this reason the above assumption should be treated as a hypothesis that requires further investigation to be proven or rejected

### **The role of education system in development of personnel creativity**

The results of the presented research show that availability of creative staff received a relatively low evaluation. It is even more worrying that for many years now a number of schools for tourism industry have been growing, but instead of building more and more competitive creativity-related training programs they have been focused on mass education in accordance with the imposed standards. This inflexible approach to “mass audience” education did not contribute to creativity of young people. Hence, the assessments pointing out the low and medium-high level of creativity development in schools and colleges should not be surprising. Therefore, formal education in the regions does not contribute to creativity of human capital.

Education in the field of tourism, despite having been developed for years, needs some system changes both in Poland and Europe. L. Pender and R. Sharpley share this opinion, claiming that the tourism sector in Europe is characterized by relatively high homogeneity, but the accompanying education and training systems vary greatly due to the differences in the systems of vocational education and the status and nature of tourism in different countries and regions (Pender and Sharpley 2008, pp. 120-121). The solution to the problem is to be, as is assumed, the implementation of the European Framework of Qualifications, which will clarify all differences in recognition and validation of competences and skills in each recognizable field. Europe is becoming open not only by the abolition of borders in the strict sense, but also “opening employers’ minds” on previously acquired skills seems to become a necessity (Bednarczyk, Łopacińska and Charraud 2008, p. 20).

Cooperation between science and enterprises was, inter alia, the subject of the Lisbon Strategy which resulted in a declaration defining 19 postulates concerning the rules of cooperation between colleges of higher education and enterprises in order to enhance innovation of the European

economy (Runiewicz-Wardyn 2008, p. 85). One of them points to the need of a significant increase in the share of public expenditure devoted to education and identification and tackling the obstacles in the education systems that inhibit development of the innovation-friendly society, in particular, implementation of better education and skills development in innovation. The issue of cooperation between science and business was also the subject of the OECD studies which were presented in the annual reports of the organization, i.e. inter alia: "Science, Technology and Industry" (*OECD Science, Technology and Industry Outlook 2012*, 2012) and the seventh Framework Program (2007-2013) for Small and Medium-sized Enterprises.

The contemporary education system should, at all its levels, prepare young people to become more independent to a much greater extent than it was required in the past. First of all, the school or college should teach youngsters to solve problems on their own and to develop solution strategies, plan their own actions and organize cooperation. An important place among the required abilities is occupied by independence in searching for information as well as selecting and presenting it to others.

## **Conclusion**

In regional coverage, educated, skilled and creative staff that represent new quality standards determine a greater innovation potential of businesses and regions conditioning the speed and direction of their development and building their competitive advantage. However, without a proper education system which is oriented towards development and enhancement of creativity among young people, it will be difficult for both entrepreneurs and whole regions to supply the expected added value in the offered products.

In search for the ways to activate creativity of the personnel of tourism enterprises one should consider the potential of information technologies in this field. Facilitation of access to highly-qualified personnel has a tremendous importance in the context of the existing human resource shortages on local tourism markets. Application of ICT to support acquisition of information from the environment is also very important for building personnel creativity. The growing sets of data, which are potentially easily available (e.g. data gathered in social media domain) require more and more sophisticated solutions for their retrieval and analysis. In this context the role of regional tourism (institutional) environment cannot be overestimated. Over 90% of tourism enterprises in the European Union are firms employing fewer than 10 people. For most of them development of any kind of IT support is impossible due to lack of necessary resources, including basic technical knowledge. For this reason institutions constituting tourism business environment, including

educational and research ones, should actively engage in creation of the necessary info-structure for the transfer of knowledge and information to and in tourism sector. Such activities will result not only in the increase of the creativity of human resources in tourism, but will also enhance innovation processes in the whole tourism industry.

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### **Abstrakt (in Polish)**

*Kreatywność, innowacyjność i przedsiębiorczość to hasła, które stały się integralną częścią nowoczesnej gospodarki turystycznej. Intensywnie dyskutuje się nad kreatywnością i innowacyjnością gospodarki turystycznej czy też znaczeniem kreatywności w biznesie turystycznym. Kreatywność jest dziś bardzo często analizowana, jako podstawowa cecha działania w codziennym życiu i pracy oraz coś, czego wręcz wymaga się od każdego pracownika. Oznacza to konieczność tworzenia nie tylko przez przedsiębiorców, ale przede wszystkim przez system edukacji warunków kształtujących kreatywność ludzi rozumianą, jako to, co pozwala adoptować się, na co dzień do zmieniającego się otoczenia i podejmować ryzyko stosowania nowych rozwiązań konkretnych problemów. Celem artykułu jest ukazanie roli, jaką odgrywa kreatywność w rozwoju innowacyjności turystyki, jak również czynników, które wpływają na jej podnoszenie. W artykule analizie zostaną poddane przede wszystkim czynniki związane z dostępnością wykwalifikowanych kadr na lokalnym rynku pracy, a także informacyjna struktura firm turystycznych.*

**Słowa kluczowe:** *kreatywność, innowacyjność, technologie informacyjno-komunikacyjne, współpraca.*



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# Innovative Activity of Small Tourist Enterprises – Cooperation with Local Institutional Partners

*Marta Najda-Janoszka\**

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## **Abstract**

*According to the open innovation model an effective strategy for increasing innovation and competitiveness of the region should be based on active and multilevel cooperation among operators of the local tourism business environment. It is commonly assumed that an exceptionally important role in creating a favorable environment for the cooperative practices in the region is performed by local authorities. Yet, a modest number of research findings presented in the literature indicate a rather high level of inertia of local authorities in creating appropriate conditions for tourism business development, thus putting in question the effectiveness of performed intermediary function in the process of knowledge transfer among tourist enterprises. Given the paucity of empirical evidence on effectiveness of innovation policy interventions at the regional level, this article presents the empirical findings regarding cooperation in innovation between tourist enterprises and local institutional agents.*

**Keywords:** *tourism, innovation, cooperation, institutional environment, local government.*

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## **Introduction**

Competition in a spatial dimension between geographical areas is a complex phenomenon, since regions and communities compete simultaneously on different levels for residents, investors, tourists, public funds (Dziemianowicz, 2008). Local institutional bodies responsible for providing favorable conditions for sustainable economic growth of a particular community need to formulate and implement strategies enabling continuous development of the community competitive potential and its effective use while confronting other locations. Since tourism is commonly and officially recognized as one of the fastest growing economic sectors in the world and a key driver for socio-economic progress, a growing number of local authorities turn towards tourism industry in their search for the most promising direction of economic growth. However, tourism business, although highly dynamic, is also

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characterized by an exceptionally intense competitive pressures. According to subject literature shaping and maintaining competitive advantages of tourism enterprises should be based on considerably high and stable innovation rate (Bednarczyk, 2006; Hjalager, 2002; Sundbo, Orfila-Sintes and Sørensen, 2007; Weiermair, 2006). Yet, the observed level of innovation in tourism is rather low and the findings indicate a weak propensity of tourist enterprises to cooperate in innovation with operators of local tourism business environment (Bednarczyk 2013; Camison and Monfort-Mir, 2012; Sundbo et al. 2007).

Since the research results presented in the literature confirm the existence of a direct correlation between the cooperative activity of enterprises and their level of innovativeness (Trigo and Vence, 2012), there is a great need for an efficient intermediary agent to enhance the cooperative capability and further the innovation rate of tourist enterprises. An emerging literature on tourism management ascribes this intermediary function to local institutional bodies conceptualized as integral co-producers of the value in the tourism innovation process. However, as pointed by Hjalager (2010) “the literature on tourism innovation policies is mainly conceptual or prescriptive, and there is still only vague evidence of its effects and effectiveness”. Thus, aiming at filling the cognitive gap, this article presents the empirical findings regarding inefficiencies in cooperation in innovation between tourist enterprises and local institutional agents.

### **Institutional support for innovations in tourism**

The role of the local governmental bodies is an emerging field of study within tourism research (Hjalager, 2010, p. 8). The literature provides a growing number of concepts of the multidirectional impact of institutional agents on the growth and innovation of tourism sector. Authors indicate the significant potential of local governments by discussing the manifold functions of them ranging from formal policy-making, collecting and redistributing funds, to active promoting, developing favorable conditions for tourism growth, facilitating and coordinating collaborative initiatives concerning local sustainable development (Keller, 2006, Decelle, 2006, Weiermair, 2006, Bednarczyk, 2013; Najda-Janoszka, 2010). It becomes a widely applied approach to conceptualize local governments as integral and actively involved co-producers of the value in the process of tourism innovation (Bednarczyk, 2013; Hjalager, 2010, Weiermar, 2006). Nevertheless, according to research results presented in the literature innovation behavior of tourist enterprises indicates a minor engagement of external actors in the innovation process and very weak or even non-existent innovation systems in tourism industry (Sundbo et al. 2007, p. 90-91). The high level of imitability of tourist

innovations due to their unsophisticated nature and difficulties with effective protection of created value leads to the proliferation of free-rider behavior and thus rather competitive than cooperative attitudes in tourism sector (Najda-Janoszka, 2013a, 2013b; Sundbo et al., 2007; Hjalager, 2002; Nordin, 2003). At the same time, it has been emphasized that in tourism successful development and implementation of original product innovations (new to the market) require effective cooperation with providers of complementary services (Keller, 2006, p. 38).

Highly specific projects call for complex collaborative structures that incur high transaction costs unaffordable for micro and small enterprises that dominate tourism industry (Keller, 2006, p. 38). According to Community Innovation Survey 2010 the most severely experienced barriers hampering innovation among tourist enterprises are the lack of funds for costly innovative activities together with the lack of qualified personnel crucial for setting social bonds that enable networking. Hence, small tourist enterprises show limited capabilities to apply professional approach to generating benefits from the networks (Sundbo et al., 2007, p. 101). Taking into account the nature of the tourism business characterized by exceptional complementariness and interdependence (Camison and Monfort-Mir 2012) together with lack of capabilities to cooperate on one hand and a significant increase in the importance of cooperation as the basis of economic growth on the other, there is a great need for stimulation and support of cooperative initiatives in tourism destinations in order to develop institutionalized systems of tourism innovation (Sundbo et al., 2007; Weiermair, 2006). Thus, many authors underline the need for active role of institutional bodies in providing support for cooperative initiatives and not for individual firms or outright innovations that often lead to rather rent-seeking behavior than more intense innovative activity (Weiermair, 2006; Keller, 2006; Decelle, 2006). According to Weiermair (2006) government's supportive engagement should be exercised in a form of a facilitator or an incubator for generating and developing complex, common-destination innovative ideas further implemented by private sector, bearing in mind that the local authority does not create innovations but provides favorable incentive system for developing innovations (Keller, 2006, p. 17). Hence, local authorities should encourage tourist enterprises to innovate on the basis of cooperation in networked structures consisting of public and private entities (Weiermair, 2006). Reorientation of local government in the strategy to build social and institutional networks should enable developing a friendly and attractive environment for companies, their establishment, development, and relocation (Blakely and Leigh, 2009, p. 95).

The issue of institutional support for the development of tourism enterprises at the local level has been the subject of a research project

carried out by the research team of the Department of Management in Tourism at the Jagiellonian University in Krakow in years 2008-2009\*\* as part of a longitudinal study of competitiveness of micro, small and medium sized tourist enterprises in Poland run by M. Bednarczyk since 2003. According to the concept of the research formulated by M. Bednarczyk (2011) the content of activities performed by the local institutional bodies determines the three external leverages of competitiveness of tourist enterprises defined as:

- Interaction – concerning common, joint actions of tourist firms and local authorities focused on creating favorable conditions for the development of tourism business in a particular region.
- Co-creation – encompassing the engagement of tourist enterprises in developing and implementing the strategies of tourism growth in communities and the impact of information systems implemented by local authorities on the local conditions for tourism business development.
- Collaboration – reflecting the quality of the cooperation among tourist enterprises, institutional bodies and local communities.

Defined levers were evaluated according to the level of the inertia exhibited by the local institutional bodies ranging from 0 (the lowest level) up to 4 (the highest level).

**Table 1.** The inertia of external leverages of competitiveness

External leverage of competitiveness	Inertia
Interaction	3.08
Co-creation	2.11
Collaboration	2.62

Source: Najda-Janoszka (2010), p. 53.

The obtained overall picture reflected rather marginal utilization of the supportive potential of local authorities in developing a nourishing environment for tourism business growth. Almost half of the surveyed tourist enterprises (accommodation and food services, travel agencies and tour operator services) indicated lack of any activity assumed to be performed by the local governments. Hence, during the three-year period covered by the research there was no significant improvement in the indicated levels of inertia for defined external levers of competitiveness (Najda-Janoszka, 2010). Due to the key role of local institutional bodies in the knowledge

\*\* Research Project “*Entrepreneurship in the tourist economy based on knowledge*” lead by prof. M. Bednarczyk, carried out by the research team of the Department of Management in Tourism at the Jagiellonian University in Krakow, Poland in years 2008-2009, financed by the Ministry of Science and Higher Education of Poland – project number N N 115 3730 33.

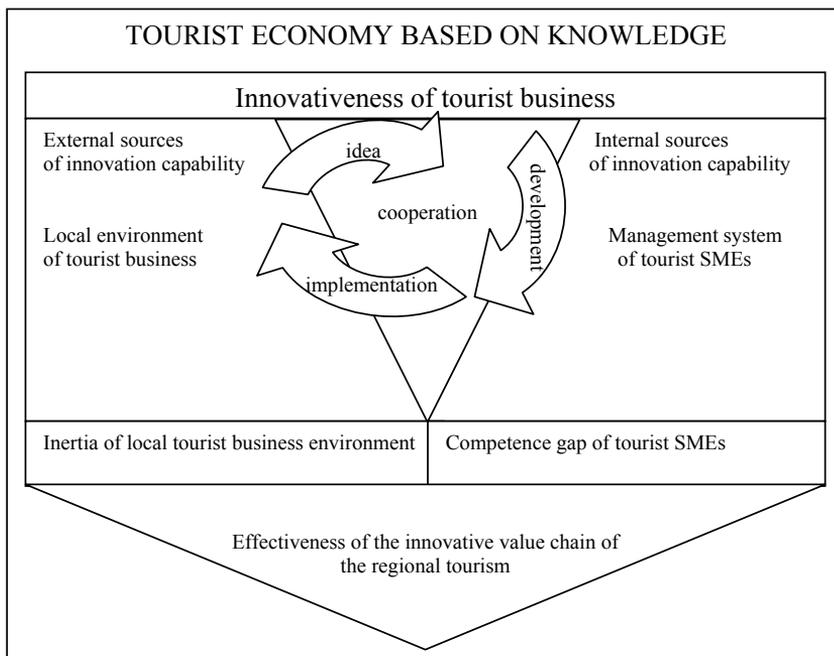
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transfer process in tourism industry the consequences of such high inertia are expected to be pervasive concerning the tourist innovation process.

### **Research methodology**

The thorough investigation of competitive potential of tourism business in Poland during the previous research projects (Bednarczyk, 2011, Bednarczyk, 2006) provided a conceptual ground for exploring innovation process in tourism from the open innovation perspective, assuming that the synergy resulting from cooperation of the key regional stakeholders at all stages of the innovation process produces the added value within the regional tourism innovation chain (Bednarczyk, 2013, p. 17). Hence, in years 2010 – 2013 the research team of Department of Management in Tourism at the Jagiellonian University led by Professor M. Bednarczyk conducted a complex study, aiming at developing conceptual and methodological foundations for the integrated management of the innovative value chain at the regional level (Bednarczyk, 2013, p. 17). The project was recommended and financed by the Ministry of Science and Higher Education in Poland (Project No. N 115 321 339).

The concept of the innovative value chain of the regional tourism (IVCRT) developed by Bednarczyk (2013) provides a methodological basis enabling departure from the common practice of applying to the service sector models of the innovation process not suitable to its specifics since they were developed and dedicated to the manufacturing industries. The research model (Figure 1) has been formulated following the logic of the entrepreneurial view of tourism business and its internal (management) and external (environment, local and regional) sources of innovation capacity (Bednarczyk, 2011, pp. 65-74).



**Figure 1.** Research model of managing the innovative value chain of the regional tourism

Source: Bednarczyk (2013), p. 18.

The core of the research model is the overlap of three dimensions, namely “the efficient management of tourist enterprises, the quality of the local business environment (institutional and social) and the local platform for cooperation in order to make the best use of emerging synergies” (Bednarczyk, 2013, p 19). Consequently, the stakeholders of the regional innovation process were grouped into five categories: micro, small and medium-sized tourist enterprises (MSMTEs), units of the economic self-government, local government bodies, the customers of the tourism industry, residents of communities where tourism is an important element of economic life. Empirical studies were conducted in 2012 in the southern region of Poland (NUTS 1), selected on the basis of tourist attractiveness index and the development status of regional innovation strategies. The structured questionnaires were directed to all five categories of stakeholders. In order to maintain continuity of the long-term monitoring of the competitive potential of tourism enterprises carried out by the research team of Department of Management in Tourism run by M. Bednarczyk, the MSMTEs category

included enterprises performing business activities identified in the HORECA. The formulated by M. Bednarczyk concept of IVCRT has been empirically verified in the study sample consisting of (Bednarczyk, 2013, p 32):

- 55 MSMTEs,
- 275 units of local government,
- 11 units of economic self-government,
- 300 customers of tourist business,
- 389 community residents.

The resulting frequencies were sufficient for carrying out an analysis and reasoning in line with methodological assumptions of the research project. According to the logic of developed research model nine critical tasks of the IVCRT have been defined and further thoroughly verified during empirical research. This paper presents and discusses the issues concerning cooperation between tourist enterprises and local institutional bodies in the innovation process. The content of this complex problem has been included in six out of nine critical tasks of the IVCRT:

Area: External sources of innovation capabilities defined by the local tourism business environment:

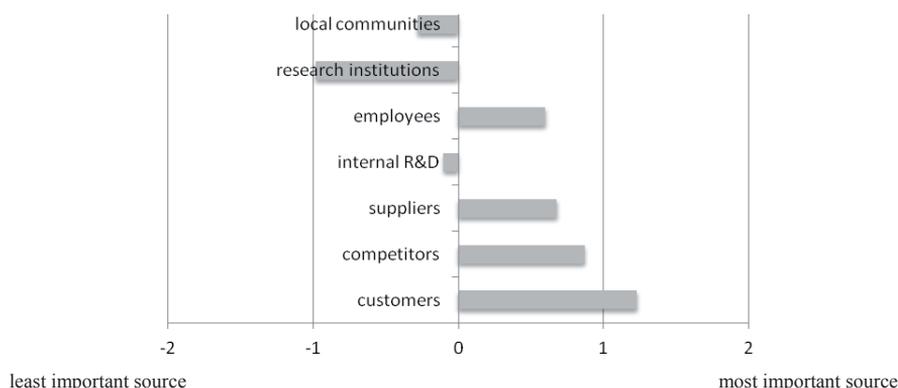
- Ensuring efficient and effective exchange of information used in the innovation process between the local business environment and business tourism destinations.
- Preparing and providing access to creative and skilled personnel capable of carrying out innovative activities.
- Providing technological support to the info-space, in which the phases of the innovation process are being carried out.
- Providing financial support and access to sources of financial capital for activities performed in subsequent phases of the innovation process
- Area: Synergy of external and internal sources of innovation capacity:
  - The cooperation between local tourist business environment and MSMTEs at all stages of the innovation process.
  - Area: Efficiency of IVCRT
  - Generating added value through innovation by individual stakeholders in the region.

## Results and discussion

Most tourist enterprises, due to their reduced dimension, often face the challenge of reaching an optimum rate of innovation being unable to provide a strategically necessary continuity of innovative activity (Camison and Monfort-Mir ,2012). Resulting diseconomies of scale usually have a direct impact on the profitability of investments made at each phase of innovation

process, and therefore affect the propensity to engage resources to innovative ventures (Camison and Monfort-Mir, 2012). Thus, in majority of surveyed tourist enterprises, generating ideas for innovations is based more often on information collected individually by particular employees than through a more complex market research procedure and systematic monitoring and analysis (see Figure 2). At this essential moment of interaction between internal and external innovation capacity tourist enterprises rely predominantly on internally accumulated knowledge acquired rather irregularly from customers, competitors and suppliers (Najda-Janoszka, 2013a).

While a marginal interest in information provided by institutions performing basic research has rather been expected, bearing in mind the specific nature of value creation process in tourism business, the fact that local community institutions are considered of minor importance as sources of information for innovation is somehow puzzling, given the proclaimed intermediary function of those institutions in the knowledge transfer process within the tourism industry. Nevertheless, obtained results are consistent with the CIS 2010, in which local institutional bodies belong to the least important sources of information for innovations introduced in tourism. The unsatisfactory (barely approaching the average level) evaluation of the existing information exchange in the local tourism environment made by surveyed tourist enterprises (Batorski, 2013), directly corresponds with the arguments concerning possible penalties resulting from the malfunctioning of the intermediary institutions (Hjalager 2002, Camison and Monfort-Mir, 2012).

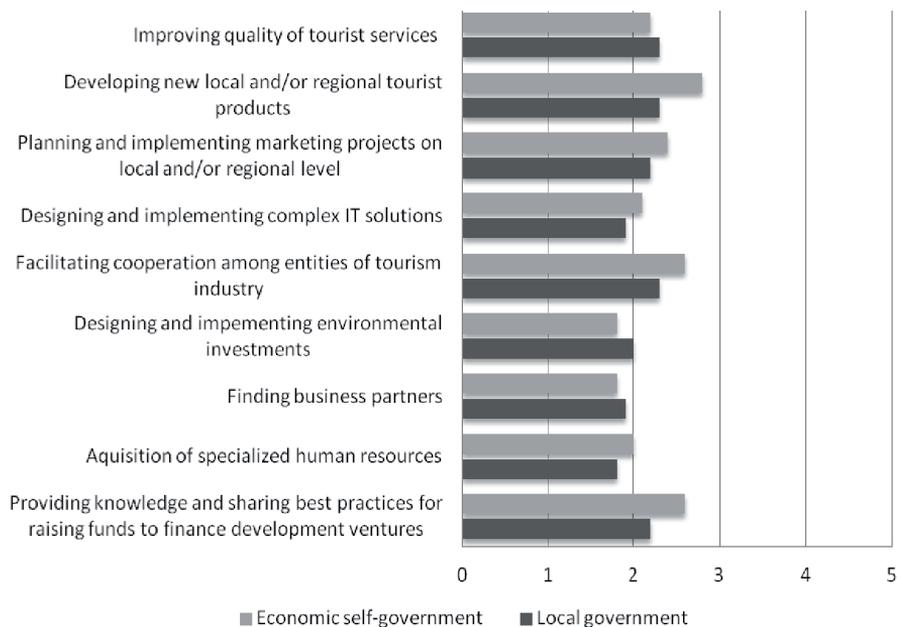


**Figure 2.** Important sources of information for innovation

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Since value creation in tourism is to a large extent determined by spatial assets, the relational embeddedness in the local environment is regarded essential for the successful innovation process. In the research sample the strongest and most stable business relations link tourist firms with customers and suppliers, yet other agents on the local arena are evidently marginalized (Kopera, 2013). Almost every second respondent indicates weak or very weak relations with local community institutions (Kopera, 2013). The observed tendency to ignore the informative and relational potential of local community bodies does not allow for an effective improvement of provided content toward the needs of tourism innovation. Moreover, an extensive, dense network of relationships is commonly assumed to constitute a fertile ground for cooperative initiatives and ventures. The exhibited paucity of relationship linkages with local institutions suggests a weak disposition toward cooperation with those bodies. The following Figures 3 and 4 empirically test this supposition.

The findings presented in Figure 3 indicate a very little level of involvement in cooperation with tourist enterprises exhibited by local institutional bodies across all supportive activities they perform (Kurleto, Chudzik and Marszałek, 2013). On the contrary the majority of surveyed firms declare a multiple experience in cooperation in the area of supply and promotion, which coincides with the above-mentioned distribution of maintained important business relationships. In case of local community institutions, neither of the listed lines of actions reaches the average level of cooperative engagement, even those requiring collaboration by definition, i.e. facilitating cooperation among tourist businesses, finding business partners, developing new regional tourist products (Kurleto et al., 2013).

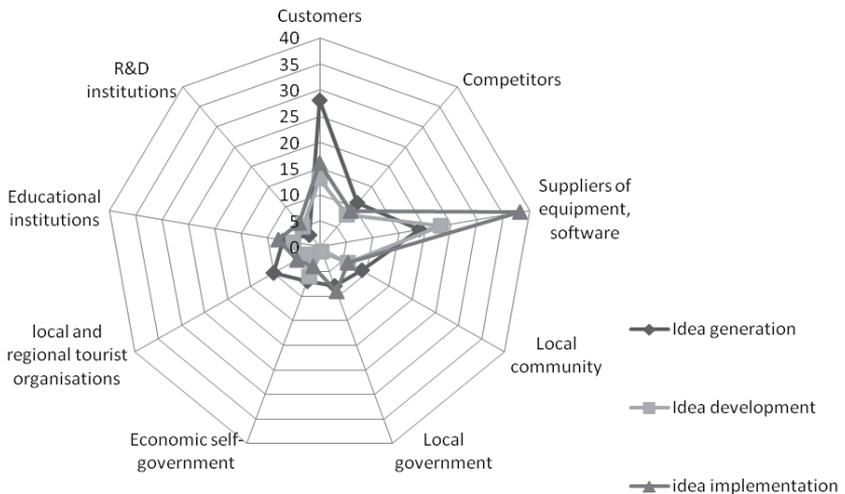


**Figure 3.** Cooperation with tourist enterprises

Consequently, the obtained results confirm the conclusions formulated in the previous research project regarding a high level of inertia of local institutional environment, wherein detailed findings provide an insight to the range and severity of that inertia from the innovation process perspective. According to the surveyed tourist firms the lack of funds for innovations and a high cost of innovative activities represent the most severely experienced barrier to innovations. Thus, the expectations directed towards institutional bodies are mainly concerned with direct financial support. Looking at the opposite site, transferring financial capital to business sector is one of the key tasks performed by local authorities, however those institutions are to serve as economic development facilitators and not as donators. Therefore, taking into account the aims of both sides, it is surprising that the supportive activity concerning providing knowledge and sharing best practices for raising funds to finance development ventures does not trigger collaborative attitudes among business and institutional entities. Undoubtedly, the ineffective information exchange accompanied by weak and scarce relations linking tourist enterprises and local institutions lead to a mismatch between the content of the supportive offer and the expectations of the potential

recipients. In many cases tourist enterprises are not even aware of the variety of services and information they can benefit from.

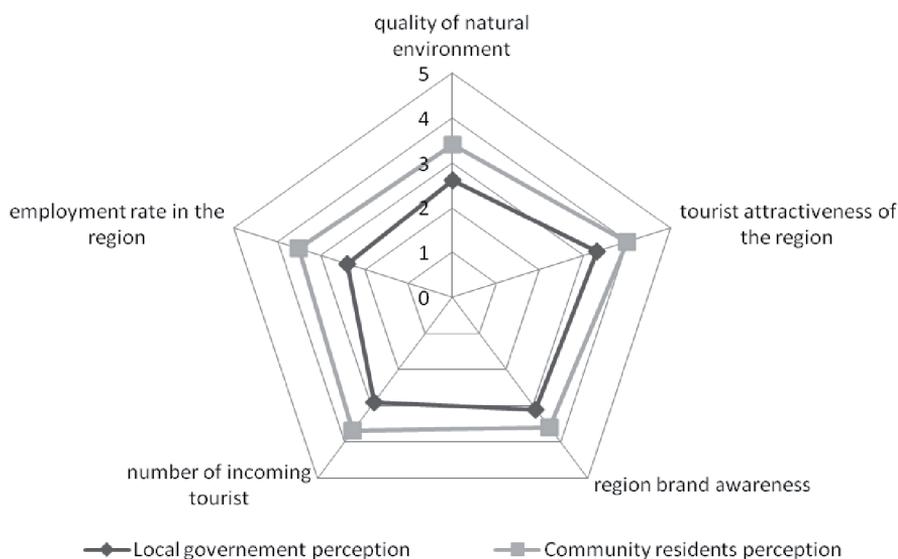
The surveyed local institutions declared rather weak involvement in collaborative ventures aiming at developing new local tourist products. Such approach is quite contrary to the postulated function of the local authority as facilitator and incubator for generating common-destination innovative ideas. Thus, it is necessary to obtain an insight into the cooperation in innovation from the tourism business perspective. The findings presented in Figure 4 indicate that only a very tiny proportion of tourist enterprises cooperate with local institutional bodies at all three stages of the innovation process. According to the findings, a joint work of tourist firms and local institutions can be classified as an incidental phenomenon. What is more, the obtained results give evidence of a weak propensity towards collaboration with all types of potential partners (Najda-Janoszka, 2013a).



**Figure 4.** Cooperation in innovation

The “innovation collaborative profile” of investigated tourism enterprises overlaps their network of established business relationships together with the main channels of information exchange and the gained cooperative experience. Customers and suppliers of equipment and software represent the most welcomed partners for joint innovative activities. Given that tourism is commonly recognized as a customer oriented service industry, it is not surprising that tourist enterprises prefer to cooperate with clients while

generating ideas for innovations. A shift towards suppliers in the next two stages of the innovation process can be justified by the fact that a great proportion of innovations introduced in tourism is supply-driven and in order to translate new ideas into final comprehensive solution tourist firms choose partners that provide the necessary specific and complex components. Yet, innovation in tourism is equally “an intrinsically territorial, localized phenomenon which is highly dependent on resources which are linked to specific places and are impossible to reproduce elsewhere” (Camison and Monfort-Mir, 2012, p. 782). Therefore, the fact that local community institutions remain at the margin of the innovation activity of the tourism business appears somehow paradoxical. Nevertheless, the lack of involvement in cooperation in innovation is exhibited by both sides, the business one and the institutional one. According to the findings tourist firms perceive local authorities rather as providers of financial support than potential partners having an attractive portfolio of valuable knowledge resources and capabilities. On the other side, the question is if local institutions are indeed aware of and experience the positive effects of innovative activity of tourism enterprises in a particular community or region.



**Figure 5.** Effects of tourist innovation at regional level

As presented in Figure 5 from the local authorities perspective, the effects of innovation activity performed by tourism business are generally not

spectacular. However, average and above average notes have been ascribed to the number of incoming tourists, tourist attractiveness of the region and region brand awareness – the cornerstones for the community development as a tourist destination (Kurleto et al., 2013). Interestingly, the community residents' perception of all indicated effects is more optimistic. The local communities as final beneficiaries of local economic development assess higher the innovative activity potential of tourism firms than institutions responsible for planning and implementing strategies for local development. Hence, given those key effects experienced by local communities and authorities, and the fact that tourism is officially recognized as one of the fastest growing economic sectors in the world and a key driver for socio-economic progress, local institutional bodies responsible for providing favorable conditions for economic growth of the particular community should exhibit more interest in facilitating cooperative initiatives among tourism businesses operating in that community. According to the findings presented in the literature, the level of innovativeness is directly correlated with the cooperative activity (Trigo and Vence, 2012). Since many authors point at the weak propensity of tourism firms to cooperate in innovation due to the difficulties with protecting and appropriating value from innovations (Hjalager, 2002; Najda-Janoszka, 2013b), there is a great need for an efficient and effective intermediary agent to enhance the cooperative capability and further the innovation rate of tourist enterprises.

## **Conclusion**

According to the open innovation model an effective strategy for increasing innovation and competitiveness of the region should be based on active and multilevel cooperation among operators of the local tourism business environment. An exceptionally important role in creating a favorable environment for the cooperative practices in the region is performed by local authorities. Results from the previous research project conducted in 2006-2009 pointed to a persistent high level of inertia of local institutional environment in creating conditions for the development of tourism business, as well as in facilitating cooperation among tourist enterprises. The consequences of that adverse level of inertia have been observed in the current study in various areas of the innovative value chain of the regional tourism. The local institutional bodies are considered of minor importance as sources of information for innovation, despite the fact that those institutions are assumed to perform an intermediary function in the knowledge transfer process within the tourism industry. Thus, the existing information exchange in the local tourism environment has not received high notes from tourist

enterprises. Almost every second tourist firm indicates weak relations with the local authorities, hence, tourist business exhibits also weak propensity toward cooperation with those institutions.

The paucity of joint projects, initiatives, ventures, information-exchange makes it impossible for the investigated entities to develop specific competencies referred to as the ability to cooperate. The logical consequence of the inertia of local institutional bodies is marginal, often just incidental involvement in the innovation activity performed by tourism enterprises. Importantly, the lack of involvement in cooperation in innovation is exhibited by both sides, the business one and the institutional one. Given the negligible history of cooperation between tourism business and the local institutional environment, the main question concerns mutual expectations of the parties and the perceived areas of possible cooperation. As local authorities are seen primarily as sources of direct financial support, it actually limits the partnership options. That in turn, according to the logic of the innovative value chain of the regional tourism and obtained results, affects the scale of experienced effects of innovations introduced by tourist business in particular region. Therefore, it is essential to develop an appropriate information policy directed toward tourist business, to promote and create awareness of all supportive activities performed by local institutions and possible areas of cooperation aiming at developing the tourist attractiveness of the region.

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### **Abstrakt (in Polish)**

*Zgodnie z otwartym modelem innowacji wzrost innowacyjności i konkurencyjności regionu powinien opierać się na aktywnej i wielokierunkowej współpracy między podmiotami lokalnego otoczenia biznesu turystycznego. W ramach literatury przedmiotu przyjmuje się, że niezwykle ważną rolę w tworzeniu środowiska sprzyjającego współdziałaniu w regionie pełnią lokalne instytucje. Jednakże, wyniki badań prezentowane w literaturze wskazują na dość wysoki poziom inercji władz lokalnych w tworzeniu warunków dla rozwoju branży turystycznej, tym samym stawiają pod znakiem zapytania skuteczność realizacji przez te instytucje funkcji pośrednika w procesie transferu wiedzy między przedsiębiorstwami turystycznymi. Biorąc pod uwagę niedostatek badań weryfikujących efektywność polityki innowacyjnej na poziomie regionalnym, w niniejszym artykule przedstawiono wyniki badań empirycznych dotyczących współpracy pomiędzy przedsiębiorstwami turystycznymi i lokalnymi instytucjami w zakresie działalności innowacyjnej.*

**Słowa kluczowe:** *turystyka, innowacyjność, kooperacja, otoczenie instytucjonalne, samorząd lokalny.*

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# Towards the Definition of a Tourism Cluster

**Magdalena Kachniewska\***

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## **Abstract**

*The concept of tourism clusters is becoming central within the tourism development planning process and the EU perceives cluster arrangements as the preferred form of introducing innovations in different economic fields, including tourism. The Polish Tourism Organization (POT) is to launch the subprogram aimed at the commercialization of the tourism product and intensification of SMEs' integration processes (vertical and horizontal ones), which shall boost the innovativeness of Polish tourism regions and enterprises. The main purpose of this article is to find rationale for tourism cluster formation in Polish TDAs and to formulate the definition and main attributes of the tourism cluster. The problem of clusters' impact on SMEs' productivity and the destinations competitiveness will be discussed on the basis of economic theory using the case study and the field work method as well as the literature study.*

**Keywords:** *tourism cluster, definition, cooperative networks, competitiveness, tourism destination area.*

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## **Introduction**

Tourism acts as a stimulating factor for economic (hence national) development. As it is, for the large part, responsible for economic growth, balance of payments, employment and regional balances in individual countries and across regions, numerous tourism entities are looking forward to the reinforcement of their potential in tourism development on the local and regional level.

It is worth mentioning that a dual economic structure of tourism has developed over the years. In the light of recent studies on the phenomena of concentration and restructuring, two categories of companies seem to coexist:

- traditional small and medium sized enterprises (SMEs), which seek a second breath, in order to become international and try to adapt their services to the new requirements of domestic and international demand;

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- corporate companies which specialize in large-scale tourism, according to strategies of cost rationalization.

Whereas in the target countries or destinations SMEs continue to offer such tourism services as accommodation, catering and leisure time activities, an international travel and tourism industry has gradually emerged in the source countries as part of the globalization process. The Support Programme “Intelligent Development” launched by the Ministry of Regional Development lays the grounds for new projects aimed at innovation, competitiveness, internationalization and intensification of the Polish SMEs’ integration processes. Within the tourism industry the most natural way of integration seems to be vertical integration along the tourism value chain as it constitutes the complete offer for a tourist.

The Polish Tourism Organization is to launch the subprogram aimed at the commercialization of the tourism product and intensification of SMEs’ integration processes (vertical and horizontal ones), which shall boost the innovativeness of Polish tourism regions and enterprises. There are four groups of possible beneficiaries of the Programme: (a) start-ups – new tourism enterprises declaring their willingness to enter the overseas markets; (b) tourism enterprises with a strong market position (the main criterion for the participation in the support programme constitutes the minimum share of export volume within the volume of sales); (c) tourist clusters, understood as the form of vertical integration around the theme or local product and (d) tourism product consortium, understood as the form of horizontal integration designed for marketing purposes. The two final groups of entities reflect the tremendous effort being done in Poland towards the improvement of tourism destination management.

The destination’s competitiveness “is determined by both tourism specific factors and a much wider range of factors that influence the tourism service providers” (Enright and Newton, 2005, p. 340). The competition among tourism destination areas (TDAs) is not centred on the single aspects of the tourist product (environmental resources, transportation, tourism services, hospitality, etc.) but on the tourist destination as an integrated set of tourism facilities and experiences (Medlik, 1995; Buhalis, 2000; Ritchie and Crouch, 2000). The best modality for objectifying the production and supply of tourism products at the level of individual tourism destination, especially the spatially larger ones, are clusters. The formation of tourism clusters seems to be the simplest way to create an organised offering that would objectify a complete tourism product, previously conceived on a marketing basis.

The existence of regional and local tourism organizations (RTO, LTO) in Poland could be the starting point for the tourism cluster initiatives, however there is no consensus about the actual role of RTOs and LTOs in tourism product

development and innovation reinforcement. The positive performance of some RTOs and LTOs in Poland constitutes good circumstances for future cooperation within the tourism regions while the poor rating of the others disincline to delegate them to coordinate cluster formation.

The main purpose of this article is to find rationale for tourism cluster formation in Polish TDAs, to formulate the definition and main attributes of the tourism cluster and to compare the attributes with the main characteristics of Polish RTOs and LTOs in context of their possible coordinating role within the new tourism clusters. The problem of clusters' impact on SMEs' productivity and the destinations competitiveness will be discussed on the basis of the economic theory.

### **Research methods**

When formulating the definition of the tourism cluster three main research methods were used, namely - a case study method, literature research and the conducting interviews method. The first one included some examples of tourism clusters existing in Poland ("The Sun of Region" Cluster, "Via Sudetica", and an innovative tourism cluster "The Crystal of Europe").

A literature review (local and international literature review) serves three main purposes, including establishing the need for the research; broadening the horizons of the researcher and the reader; and preventing from conducting research that already exists. The method sharpened and deepened the theoretical framework of the research and helped to familiarise the reader with the latest developments in the area of research in the field of cluster analysis. Its main aim however was to study the definitions of clusters used in previous works with the aim of adopting them for the purpose of a tourism cluster definition and analysis (see more in the next part of the paper).

Last but not least, the conducting interviews method was used - a data-collecting method involving personal visits to respondents, in particular the leaders of 14 Local and Regional Tourism Organizations. The interview was especially useful in providing a general overview of people's thoughts and experiences within the field of regional tourism promotion and cooperation, the leading position of Local and Regional Organizations as well as their ability to function as the tourism cluster.

### **Literature review**

Arguments in support of clusters of SMEs are quite difficult to find on the grounds of traditional economic theory. Neoclassical theory does not seem to accommodate positive insights on firm cooperation rather than cooperation

as collusion, while industrial organization literature is basically concerned with market power and the associated monopoly profit.

The positive insight could be found in the transaction cost theory (Williamson, 1975): when opportunism is absent, inter-firm cooperation emerges as the appropriate firm choice (more efficient than unified or even contractual governance). In a similar way Richardson (1972, 2003) emphasised that cooperation is the third mode of carrying out economic activities – the other two being the “market” and hierarchy. Richardson (1972) was probably the first one to explain how the degree of intra-firm specialisation within the economy reduces the cost of adjustment to change, emphasising that the economy with small firms is more flexible, thus more efficient at reallocating resources following a change (Richardson, 2001, 2003).

The support for SMEs has been extended during 1990s to encompass support for the creation of linkages and agglomerations of enterprises as a way of creating and maintaining competitive advantage for participating firms and regions. However the potential advantages of clusters vis a vis larger firms dates back to Marshall (1920) and his treatment of the industrial districts, examined as geographically defined (localized) socio-economic systems of production made up of specialized SMEs. Marshall highlighted external economies, cumulative innovation process and collective efficiency as factors conducive to the industrial district’s growth. Piore and Sabel (1984, 30-33) enlightened also other attributes:

- highly differentiated range of products and their constant alteration (both: in response to changing market tastes as well as to shape market tastes and create the new markets)
- technology used in various ways and for various products
- balancing competition and cooperation between firms.

Other researchers emphasised knowledge and learning that took place within districts (MalMBERG and Maskell, 1997), flows of information, knowledge and innovation as well as the importance of the social capital (Rosenfeld, 1997). Most researchers seem to acknowledge that horizontal or vertical linkages between firms and the existence of collocated sectors are important contributing factors to firm regional competitiveness and productivity (Porter 1990, pp. 69-89, 1998, pp. 70-90, Inkpen and Tsang, 2005, pp. 146-165).

Penrose effects of knowledge and experience (Penrose, 1959) may apply to cooperating firms and clusters as well. Cooperation may enhance individual firms’ productive opportunities, thus enhancing the whole economy’s productive opportunity. Some arguments could also be found in Prahalad and Hamel’s (1990) core competence theory which suggests the firm should concentrate on its unique competencies looking for the other

ones within the cooperation network. The resource-based theory, combined with the institutional approach, opens the way towards the model of inter-organizational competitive advantage based on relationships (Oliver, 1997). The last one enables the firm to embody the new, so far neglected sources of competitiveness possessed by other entities within the cooperation network (Kachniewska, 2009, pp. 49-50) as well as to gain the so-called “relationship ratio” (Dyer, Singh, 1998).

In 1990, Porter proposed the concept of “industrial clusters” (Porter, 1990). The rationale for clusters theory development (as well as other cooperation network) are market failures (market imperfections), government failures and systemic failures (low social capital, high cost of cooperation with R&D institutions, low level of education etc.).

As in the competence-based theory firms are defined as bundles of competencies, social systems can also be defined as bundles of competencies. Hence Lawson’s (1999) competence theory of the region constitutes an attempt to bring together the insights of Marshallian industrial districts literature, economic geography and resource-based approach. Special emphasis was given to interaction taking place within the cluster and linkages with smaller units of the cluster (firms, public agencies).

As an economic phenomenon and the mode of economic development, the industrial cluster has caused widespread concern of scholars. Both concepts: of industrial districts and of manufacturing cluster are grounded in the theory of economic geography, specifically its concepts relating to agglomeration economies, comparative advantage and central place distribution (Isard, 1956; Nourse, 1968). Associated with these works are the writings in regional development (Friedman and Alonso, 1964) and industrial districts (Piore and Sabel, 1984; Harrison, 1992) mentioned above. However “industrial districts are usually local clusters of single product industries, like the fashion district of Manhattan or the leather footwear clusters of Italy, and they have evolved out of shared comparative advantage concepts. In contrast, cluster theory refers to concentrations of interrelated but different industries displaying a shared understanding of the competitive business ethic emanating from competitive theory” (Jackson and Murphy, 2002, p. 38).

Porter (1998, pp. 197-198) understood clusters as geographically proximate groups of interconnected companies, specialized suppliers, service providers, firms in related industries and associated institutions (e.g. universities, standards agencies and trade associations) in particular fields that compete but also cooperate”. The presence of clusters is based on the fact that actors are located in a geographic context strongly influenced by externalities, mainly positive, that affect productivity. These positive

externalities emerge through knowledge and workforce agglomerations that connect industries, technologies, skills, and purchased inputs.

In the last two decades cluster policies emerged as a central focus for territorial development decision-making processes. The benefits, especially in terms of collective learning, knowledge sharing and other types of agglomeration economies and spill-over effects, are well stressed in the regional science literature (Cooke, 2001; Torre and Rallet, 2005).

Tourism researchers have been searching for years for an appropriate paradigm to provide the framework for their research and teaching in the area of tourism development. The publication of Hjalager's article in "Tourism and Hospitality Research" (Hjalager, 2000) occurred to be an interesting stimulus for adapting the theory of industrial districts in the tourism context, mainly in understanding success factors for tourism destinations (Hjalager, 2000, p. 208). Hjalager indicated several points of difference but her article opened the way to exploration of the business literature and to formulation of the tourism cluster model. Jackson and Murphy (2002) noted that the cluster model provides a broader framework for analysis than does the industrial district model, which could be regarded as a subset or special case of the Porter model.

Networks have attracted a great deal of attention and have widened the perspective of organising for the development of economic systems such as tourism (Weaver and Opperman, 2000). A number of studies have been conducted on cooperation between companies in different constellations. These studies have principally focused on vertical networks and cooperation between buyers and sellers at different levels of the supply chain, each providing complementary products or services. The cluster concept goes far beyond the supply chain concept, which focuses on an organisation and its customers and suppliers (Carrie, 1999, pp. 45-50). A cluster is a network of companies, their customers and suppliers of all the relevant factors, including materials and components, equipment, training, finance and so on. It extends to educational establishments and research institutes which provide a large part of their human and technological capital. They are all stakeholders in the end market, influenced by globalisation, commercialisation, skills development, inward investment, start-ups and trade development.

Although Porter's original works on 'competitive advantage' (Porter, 1980 and 1990) were mainly focused on manufacturing it was recognised that these works could apply also to service industries such as tourism. Research on the tourism industrial cluster started relatively late, but scholars have made certain achievements after years of researching using the cluster diagram and "Porter diamond model" (Jackson and Murphy, 2002; Yimei, Yulin and Zhigao, 2004; Liu and Yang, 2013). Industrial cluster theory research

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has gradually spread from the initial manufacturing research to the tourism industry.

### **Tourism product structure – the rationale for tourism clustercreation**

The tourism sector can be viewed as comprising a variety of producers, distributors and facilitators. Whereas in the past the boundaries between the different players in the market were clear, vertical and horizontal integration in the tourism sector has resulted in a blurring of these boundaries (Kachniewska, 2006a, p. 20). Unlike other products offered by manufacturing or service companies, tourism products are heterogeneous: they are complex and consist of plenty of complementary components provided by suppliers from various public and private sectors. The purchase and consumption of the tourism product is spread over time and distance (Kachniewska, 2006a, p. 16). Each tourism organization provides only one or several components of the total tourism product that is consumed during the course of the complete tourism experience. One week stay of a tourist in a distant place entails contacts with some 30-50 different entities (tour operator, insurance company, carrier, hotel, restaurant, tourism attraction, exchange office, taxi-driver, souvenir shop, local authorities etc.) - this way a tourist value chain is being constructed. In order to enhance customer satisfaction, tourism companies have to establish effective relationships with their stakeholders, and especially with their suppliers, defined as those entities operating within the external environment that are responsible for the provision of other components of the total tourism product.

Tourists tend to base their judgments on the satisfaction with a vacation experience on all the components of a complex tourism system. These components are captured by the tourism value chain underlying both the production and consumption of holiday experience (Bieger, 1997). Since all services contributing to the holiday experience take place in a tourist destination, tourism researchers accept tourist destinations areas (TDAs) as the relevant unit for competition or benchmarking analyses.

As an economic phenomenon, the tourism industry essentially represents a consolidation of related economic and non-economic entities. "Tourism is the sum of the phenomena and relationships arising from the interaction among tourists, business suppliers, host governments, host communities, origin governments, universities, community colleges and non-governmental organizations, in the process of attracting, transporting, hosting and managing these tourists and other visitors" (Reid, 2003).

The attitude of local people towards tourists also constitutes one of the elements of tourism value chain. Not all the inhabitants participate indirectly

in tourism prosperity and there is a necessity to find the way to demonstrate the benefits connected with tourism development of the area: higher profits, possible investments beneficial not only to tourists but also to local people, development and increased attractiveness of the area, improvement of the area's beauty and the quality of natural environment etc. (Kachniewska, 2011, p. 56). There is also the necessity to create tourism consciousness of local people (tourism knowledge, the awareness of tourism economics) and to deal with myths and emotions connected with tourism development which seems to be very difficult to fight.

Social and environmental strategies of TDA cannot be properly developed without the public-private partnership. The public sector usually suffers from the lack of funds and inability to take risk while the private sector is unable to form the complex and complete quality offer of the area. Augustyn (1988) gives three reasons of the limited influence of enterprises on the quality offer of the TDA:

- there is a lot of antagonism between what is profitable for different companies, the society and the area as a whole
- the activity of enterprises concentrates on some chosen areas, neglecting the other ones
- the abilities to absorb additional tourists may be limited by the quantity of local tourism resources (especially natural ones).

The cooperation of public and private sectors may help to overcome the gaps and ensure the sustainable tourism development.

The evolvement of nature-based sustainable tourism seems to be another important change affecting the competition process among tourism enterprises and destinations. The lack of environmental awareness as well as high cost of eco-technologies keep the SMEs back from any ecological initiatives and deteriorate the overall image of the destination. Proper management of the natural environment seems to be another difficulty as the development of tourism industry could become one of the most devastating factors (at least causing the permanent landscape modifications) deteriorating tourism attraction of the area. Broad service offer of numerous enterprises can become the source of its competitive advantage and at the same time enables the relief of natural environment.

The geographical area is not the business unit in a sense we get used to when analysing the activities of business enterprises. However, the development of TDA's management is of greater importance as this is a place of (Kachniewska, 2004):

- concentration of all the tourism enterprises activities,
- creation of the tourism image,
- branding of tourism product,
- cooperation of the public and private sectors,

- last but not least – meeting tourists' requirements.

According to such an approach, all the TDA's should be treated as a system of public organizations, private enterprises, local people (social environment), natural environment and other tourist attractions as well as all the relations between them (Kachniewska, 2006a, p. 127).

An inability of an individual tourism firm to offer the total quality tourism product that the customer expects at the beginning of the tourist purchase–consumption process again leads to the idea of the tourism cluster. A cluster is a way of understanding a business's positioning within a broader context that includes all competing factors and elements that help companies develop a strategy in a particular geographical area. Being part of a cluster means competing and cooperating at the same time: competition puts a positive pressure toward innovation and continuous improvement, while customers receive an integral product resulting from the complementary interaction of cluster elements (Artavia, 2000). A competitive advantage can be gained from a range of sources, including technology, differences in supply, or product differentiation. The companies must concentrate on such activities and on the competence to build sustainable competitive advantages and therefore create a value greater than that of their competitors.

One more argument for the formation of a tourism industry cluster is a low level of SMEs competitiveness. Polish tourism SMEs are quite rarely associated with the potential for increased innovativeness but they still have the positive influence on the elasticity and sustainability of the economy. The European policy interest in SMEs can be explained by considering the advantages associated with small firm size (Piore and Sabel, 1984, Richardson, 2003). High transaction costs and rather poor resource-competence related factors could be balanced by flexibility in the economy, suitability to meet continuously changing demand conditions and wide network of cooperation ties (Kachniewska, 2006b, p. 315).

The consequences of globalization have a very strong impact on the typical SMEs. The international travel and tourism industry is composed mainly of large companies that organise tourism to various destinations on an industrial basis. They offer standardized products and develop global strategies that enable them to make the best use of the local potential worldwide. Although the number of large companies is relatively small in the tourism industry, they account for more than a half of total turnover in the sector and for a significant proportion of employment. The SMEs in traditional TDAs are not ready yet to cooperate with global players in world tourism industry on a wide scale and to form internationally competitive destinations. Large companies, which benefit from standardisation and economies of scale, are in a position to offer their clients more attractive services at very competitive prices. They

are able to shape new tourism markets and offer new products, which helps them to increase the “customer value” and to reduce their production costs. The consequences for SMEs are dramatic loss in market share and growing financial pressure (Alcouffe and Coulomb, 1993).

Another challenge for small tourism enterprises is the rising role of information technology in tourism. Technological innovations are also having a significant effect on the governance/management of the value chains and are encouraging the development of new tourism business models in a global value chain, notably for distribution chain. The major players have been the main beneficiaries of technological innovation whereas the smaller actors, due to lack of capital, IT literacy, technophobia and, above all, the lack of clear strategic plans, are not always taking real advantage of technological innovation. The properly managed cluster might help to overcome these deficiencies.

The decision to cooperate usually depends on the expected benefits: lower risk related to business activity; economies of scale; lower transaction costs and operating costs; more safety in the turbulent environment; protection from a global competition; offer diversification; additional funds; the diffusion of knowledge and information; more flexibility; lobbying and stronger pressure on local authorities; more effective development; limited seasonality; better access to the unique competence, funds and resources; tax optimization; wider value chain; more local entrepreneurship; enhanced tourism innovativeness (both product and process one).

A huge part of innovations result from the interaction processes (organizational learning and common entrepreneurship) within the groups of entities working together and cooperating. The development of such interdependence has a positive impact on the firms’ innovative capabilities. The shift from a single act of innovation towards the complex social mechanism constitutes the basis for new production processes and new model of innovation (the interactive model instead of the linear one).

There are also some demand structures affecting the activity of tourism enterprises and the position of destinations in a global tourism market. Besides pure leisure activities such as swimming, skiing or sunbathing, other types of tourism activity have gained importance, e.g. cultural and nature-based tourism. The enterprises need to adapt to such changes and develop new products. The demographic changes reinforce these trends as the growing share of people over 50 as well as disabled persons increases the demand for more specific products. Health, spa and “keep fit” tourism are likely to be among the segments to benefit particularly from the increasing economic importance of elderly tourists. Those complex tourists’ needs are met not just by one product or service but by three elements of the area’s

attractiveness (3As): accessibility, attractions, amenities (Holloway, 1996). The proper management of the TDA includes the recognition of all the factors, products, services which create the overall image of quality destination.

Within the tourism cluster the interested parties from all the value chain segments (hoteliers, tourism operators, restaurant owners, storeowners, museums, etc.) aspire to a common goal — to the development of a competitive tourism industry streamlined toward strategic growth and an added value. Even if an individual company at a destination feels autonomous, it represents just a single component of the total tourist product. The value of the tourist product, both to the customer and provider, emerges when the customer arrives at the production arena, the destination (Grängsjö and Gummesson, 2006, p. 62). Thus, the clustering should be principally connected to an identical spatial capture of a concrete tourism destination.

The co-operation between the providers of tourism services within a tourism cluster should be based on formally established links in order to bring about the benefits of synergy. Since each tourist destination is an agglomeration of businesses each with its own agenda and priorities, it is a difficult industry to coordinate and manage at the destination level. The process of creating a complex tourism product calls for the synergistic action of different economic and non-economic factors that participate in its formation through vertical and horizontal integrations. Bearing that in mind, a cluster seems to be the most obvious form of tourism product development within the tourism destination. No other form of regulation allows the combination of so many different entities of both non-profit and business profile.

### **Tourism cluster concept – the role of regional and local tourism organisations**

Business ties in tourism take the form of numerous different partnership systems: strategic alliances, joint-ventures, consortia, holdings, coalitions, franchising agreements etc. More and more often the business ties enlarge towards the cooperation with the government, local authorities, local citizens, R&D institutions as well as business support institutions. The inter-sector regional and local partnerships are preferred by the EU as the effects of endogenous processes building the consensus between local entities, enabling common strategies and the coordination of activities, the access to the key competencies, promote and create innovations, strengthen the identification of the local players within the local social, culture and natural environment, enhance the competitiveness of the regional and local entrepreneurship.

A tourism cluster is a complex organisation, with a structure made of various systems, each possessing its own, different information infrastructure.

The members of a cluster, while retaining their legal subjectivity and economic independence, represent a flexible form of economic integration aimed at achieving a common goal.

As tourism destination includes multiple types of actors, the tourism-industry cluster should contain the following trades and local segments: attractions (golf courses, museums/galleries, parks, live entertainment venues and other sites), transportation (airport/air service, charter bus service, public transit), support services (facilities management, public relations, advertising, finance, insurance), lodging, retail shopping, restaurants, specialised training programs as well as local authorities, tourism non-profit organizations, business environment institutions, educational background (universities, R&D), all of them cooperating with each other within the same tourism brand (regional or local tourism product) and at the same time competing in quality, innovativeness and the uniqueness of the own tourism offer.

The geographical concentration of cluster members lowers the distribution and logistics cost and ensures the access to knowledge and competencies. That is why clusters usually comprise the entities from the relatively small territory. However, the tourism cluster should not be limited to the group of neighbouring entities operating within the TDA. On the contrary, it seems to be natural that a tourism cluster includes enterprises operating in the tourism generating areas (TGA) – in the distance (overseas) markets. It is the direct consequence of the adopted competitive strategy which might be (Porter, 1980) the cost leadership or differentiation strategy combined with the market segmentation (market focus). The main condition of its successful accomplishment is a well-thought-out identification and choice of distribution channels and promotion tools which is determined by the close cooperation with entities representing the TDA in the target market(s). The effectiveness of every tourism cluster is correlated with its ability to identify (or to shape new) target markets delineated in the geographical, economic (income level) and socio-demographical context. This aspect needs to be stressed as the weak position of the Polish tourism regions to some extent results from a very traditional (if not outdated) way of operating: they are multifunction, their boundaries are unclear and opened, strong seasonality of operations, diversified tourism attractiveness and prevailing role of the public sector make them uncompetitive and unable to control their own supply. Indistinctive tourism supply usually goes hand in hand with the inability to identify the most profitable target markets, improper configuration of distribution channels and lack of promotion strategy.

The basic attributes of the tourism cluster comprise (Goetz, 2006, pp. 8-23; Gorynia and Jankowska, 2007, pp. 311-340):

- space – entities operate within the delimited territory (TDA) positioning their offer on the strictly selected (domestic and overseas) target market
- the number and structure of entities – the critical mass of diversified entities and well developed infrastructure are the basic conditions of tourism cluster success. Diversification concerns the legal form, ownership and profile of business enterprises and other units (non-profit organizations, local authorities, R&D, universities) from the overall tourism value chain, competing and cooperating, coordinated by the cluster broker or animator.
- cooperation background – the precondition of clusters foundation and future effectiveness is trust (limited opportunism propensity) as well as specialization, knowledge sharing and information flow (limited transaction costs)
- relations – business and social ties of formal and informal character and high intensity, both cooperative and competitive ones characterised by strong interaction, knowledge and information diffusion.
- foundation rules – the process of cluster's foundation should base on the system approach and open membership
- vision and mission – the common trajectory of development (larger firms catalyse the operations of smaller partners, the entrepreneurship expands towards the non-business entities) and collective procedures directed towards the growth of tourists satisfaction and enhanced competitiveness of the TDA
- benefits – favourable development conditions, multiple and acceleration effects, outstanding competitiveness and innovativeness, economies of scale and synergy, high development dynamics, new business opportunities and the chance to acquire (EU and other) funds.

Local authorities might create potential to the establishment, operation and development of cluster initiatives within the public-private partnership, financing business, communal and technical infrastructure of the TDA.

The foundation process of a tourism cluster should have the continuous nature as only in the longer term the positive effects can be observed: tourism offer specialisation and differentiation; income growth, inspiring local citizens to business activity in tourism or referring industries; stimulation of entrepreneurship and dynamic creation of new business and tourism product innovativeness; job creation and better quality of tourism offer; accumulation of social capital and lower transaction costs; competitive advantage of the TDA and all the cluster members; lower business risk and spread of responsibility; the utilisation of entrepreneurial skills of numerous actors in the region; better communication and the effect of organisational learning.

The main strategic premise constituting the rationale for cluster-based tourism development is generating positive effects (economies of scale and synergy) for all the TDA (not only the cluster members). It improves the TDA's competitiveness and is the source of the external effects enhancing all the entities and local citizens (greater social and economic activity, braking down the stereotypes and prejudices).

The determinants of successful cluster initiatives include: the prevailing commitment of the private factor; catalytic function of the public institutions (investment policy, promoting innovativeness and entrepreneurship); the lowering public role in the long term; transparent innovation and cluster policy (e.g. financing of common initiatives); wide spread of beneficiaries and effective consultancy and evaluation mechanisms.

There is no one recommended cluster model that would be appropriate in every conditions. In every circumstances an individual set of coordinating and supporting measures should be defined. The formulation of attributes of the tourism cluster should refer to different cluster classifications. Clusters are classified according to:

- the economy sector (manufacturing and service cluster)
- modernity of the industry (modern technologies and traditional industries)
- foundation motives (traditional industries revitalization, modern technologies development, improved/enhanced cooperation ties, virtual cooperation, target-oriented clusters (e.g. clusters founded in order to obtain EU development funds))
- governance system (without any central entity, one central/coordinating entity)
- the form of cooperation type: formal (societies, limited companies, consortia, cooperative society, foundations) and informal cluster
- the level of awareness (existing clusters, hidden clusters and potential clusters)
- the scope (international, cross-border, national, regional and local clusters)
- the life cycle stage (embryonic, growing, mature, declining)
- the structure of the cluster (Italian type – horizontal ties, Danish model – with so called cluster broker, Dutch cluster – with the central role of R&D entity, Finnish one – the prevailing position of the local government) (Gorynia M., Jankowska B.2007: pp. 311-340).

The Danish model seems to be the most appropriate in Polish economic and political conditions and Polish tourism position. A so-called broker (or cluster animator) coordinates the process of instituting and member appointment, motivating them to cooperation and creating the cooperative network. The broker's role terminates when the network of different

entities is arranged and the society or other organization is appointed to continue the coordination of cluster's operations. The Polish practice shows that partnership structures arranged on temporary principles without hierarchized organizational structure tend to be fragile and unstable, incapable to integrate and sustain common initiatives. The awareness of mutual benefits is inconstant and non-evident. In such circumstances the most active and entrepreneurial firms need to overcome the resistance of those reluctant, risk averse and indolent entities. The need to point the most active, leadership units seems to be the indispensable condition of the cluster initiatives in such circumstances (Bordas, 2001, p. 38-41). The coordinating role can be delegated to the local government, public-private partnership or the institution of business environment (local development agency, tourism society or business chamber). The dominance of competitive relations over the inclinations towards cooperation in many tourism regions calls into question the ability to establish a tourism cluster without the broker (leading entity).

The strategic and legislative documents in Poland create favorable conditions to the cluster initiatives. "Directions of tourism development" and "The Polish Marketing Strategy in the Tourism Sector" include the creation of public-private partnership (PPP), the development of tourism and information infrastructure, investment incentives, tourism product innovation stimuli, tourism labour quality improvement, new technologies development, the support of tourism organizations, R&D for tourism industry, entrepreneurship support, consulting programmes for tourism SMEs, international cooperation etc.

Polish regional and local tourism organization created in line with of The Act on Polish National Organization are accredited to promote tourism regions, support the development of the tourism function in TDA; initialize, give opinions and coordinate the development plans and tourism infrastructure modernization. RTOs and LTOs are supervised by the Ministry of Sport and Tourism. There is no common form of their activity (prevailing form is association) but the operating activities of RTOs and LTOs are to be addressed to all the tourism region (not only to the organization members) in the context of economic, social and environmental development.

However the last decade of RTOs' and LTOs' activity allows us to recognize that although the number of tourism organizations is consistently growing, their activity effectiveness varies from one region to another.

Next to the numerous tourism organizations there are same cluster initiatives in Poland as well, however, these are quite young structures and they constitute an attempt to formalize the existing business ties in the complicated formal, legal and economic conditions and growing

competitiveness of the tourism market. The majority of Polish clusters refer to the Danish model, however some of them are based on the Dutch model (central position of a research institution).

One of the oldest tourism clusters in Poland is Tourism and Local Development Cluster “The Sun of Region” established in order to imply modern technologies in the tourism sector operation and information development. It associates the enterprises, local authorities and R&D entities. Another cluster (of cross-border character) named *Via Sudetica* operates in the southern part of Poland and is constituted around the product of Polish ceramic art of Bolesławiec Region and the most extraordinary tourism attraction concentrated along the historical route in the Sudety Mountains, joining three regions of Poland, Czech Republic and Germany. Another example is the initiative of Opole Region Authorities to create a local tourism cluster “Milk and Honey Land” operating mainly within the agro-tourism sector.

However, among 45 innovative clusters listed within the register of Polish Agency for Enterprise Development only one partnership operates exclusively in the tourism sector, namely *North-East innovative tourism cluster “The Crystal of Europe”* coordinated by the Science Research and Technological Part East Poland in Suwalki.

The Polish tourism clusters also associate local governments and research institutions as well as universities and business chambers. They concentrate mainly on the implementation of new technologies and local tourism product branding, while quite often they also take care of the new product development and active approach to market shaping.

There is no doubt that Polish RTOs and LTOs are the most common form of tourism regional cooperation, however, they cannot be identified with clusters. Januszewska and Nawrocka (2008) compare the attributes of both forms of cooperation (Table 1).

**Table 1.** Similarities and differences between tourism clusters and regional/local tourism organizations.

Attribute	Similarities	Differences	
		Tourism cluster	RTO / LTO
Territory	Both can be limited to the TDA or any other territory.	According to the location of the cluster members it could be a local, regional, national or international (cross-border) cluster. There are also possible business ties with entities located in the target market.	The territory of operations is limited to the territory of TDA.
Creating process		Long-term process starting with independent units up to the tight cooperation of various entities and high level social capital.	Membership declaration.
Goals	Widely defined development of Tourism product and Tourism activity	The competitiveness of the region and innovativeness of the Tourism product.	The development of Tourism regional product and its promotion.
Membership	Open access	Members usually come from various sectors and industries (Tourism firms, supporting services, non-profit entities, research institutions, universities and business environment institutions.	Mainly institutions operating in the tourism market.
The scope of entities		Core business entities (tourism enterprises) supporting institutions, hard and soft infrastructure.	Local government, Tourism enterprises and organizations, non-profit entities (usually tied to the Tourism activity).
Ownership structure		Dominance of business entities.	Dominance of local authorities.
Organizational form	Both might be non-profit entities	No recommended form (cluster can be treated like a business organization)	The recommended form is association.
Legal framework		No legal framework.	Act on the Polish Tourism Organization
Initializing and coordinating entity		Cluster broker: the supporting entity, industry leader or any other institution.	Commonly the local government.
The importance of research institution		Indispensable condition of cluster formation.	Discretionary condition.

Source of financing	Public and private source of financing		
The importance of innovations		As cluster is perceived as the innovative cooperation net, innovativeness of entities is of utmost importance	The issue is not exposed.
Hierarchy structure	No hierarchy dependence.		
The role in tourism product development and branding	Tourism product development is the main goal of both institutions as well as product branding and promotion.		
Time frame	Long-term activity		
Development measures		Growth of productivity of local enterprises, innovativeness enhancement, formation of new enterprises, job creation.	Increased volume of tourism flow, tourism product quality enhancement.

**Source:** Januszewska and Nawrocka, (2008), pp. 291 - 292.

Tourism cluster and RTOs/LTOs, despite some similarities, in many aspects are different and so far they have been perceived in Poland as complementary and interdependent units. Clusters often run production and distribution activities while RTOs/LTOs concentrate on information and promotion activities in domestic and foreign markets. The above mentioned Via Sudetica tourism cluster in Boleslawiec gathers local lodging and catering businesses while the local government initialized the creation of Lower Silesia Tourism Organization, where politics seems to be a very important factor which is not exposed in the cluster (Januszewska and Nawrocka, 2008, p. 293).

According to the theory, the tourism cluster should be aimed at: identification of tourism potential of existing SMEs on the local and regional level; the prediction of new business ties and balance between the cooperative and competitive relations among the cluster members; systematic observation and research of the tourism potential of local enterprises within various product markets as well as the prospects of future promotion on various target markets. Periodically the cluster should audit the TDA and local entities and identify main factors shaping local and regional determinants of the members' activity (tourism and investment attractiveness of the local market, determinants of cooperation between enterprises, possible role of the local government in the development of the local tourism product,

local entrepreneurship stimulation on the tourism ground and in other industries).

There are plenty of institutions in Poland aimed at the initialization and reinforcement of regional and local innovativeness: business incubators, technological centers, science and technology parks, business support centers, entrepreneurship clubs, technology/innovation transfer centers etc. Cluster does not emerge spontaneously and several policy initiatives to promote its formalization is to be developed. The regional actors might be not sure about the organizations that can be mediators in the cluster. One of the possible ways to overcome the obstacle is the social network analysis identifying central actors and possible structural holes (Kachniewska, 2012, p. 47).

However, in the field of tourism, RTOs and LTOs seem to be the best choice as their experience in tourism audits and tourism product promotion make them the best coordinators of local initiatives. A good starting point for the tourism cluster formation are information banks (the bank of lodging entities, the bank of tourism offers etc.). They are usually commonly known among SMEs, which are to be perceived as the most important and most numerous element of the tourism value chain.

The relatively new model for cluster-based SME development deserves special attention since the small-sized economy is the most vital segment of each national economy. Making this model operational in the tourism industry, especially in creating the tourism product, is certainly of vital importance. The tourism SMEs in their established willingness for cluster formation can contribute the most to this process, although Poland considerably lags behind other European countries in operationalizing cluster formation in potential activities.

It should also be noted that local enterprises, and above all SMEs, are not fully aware of the role they have in creating and managing local supply, or of the influence they exert on the image of the tourism product, and in turn on a customer's destination experience (Rispoli and Tamma, 1991). Also they are not aware of the importance their interactions have in organizing the tourism product and thus in determining destination competitiveness on the market (Minghetti, 2001, p. 256). From the above premises, it is possible to conclude that SMEs' interaction contributes to the development of a tourism product and a tourist destination, especially if this interaction is the result of a targeted (controlled), rather than a spontaneous consolidation of SMEs. The cluster is considered to be the most suitable form for consolidating SMEs in developing tourism products and destinations.

A cluster requires effective governance in its implementation and consolidation. Cluster actors share similar barriers to external environment

that can be more easily reduced by coordinated action (Doloreux and Shearmur, 2009). A cluster emerges because there is an institutional context that creates advantages based on the physical proximity and existent social capital. Firms can be more efficient, reacting more quickly than when isolated, work with customers and other firms to develop new products and processes, to reduce the perception of risk and induce trust. Nevertheless clusters can create problems for regional development. The success of a particular cluster can produce an excessive concentration of resources, namely financial resources, creating difficulties for other sectors to develop and produce a type of 'Dutch disease'. The past success of a cluster can also create path dependencies that reduce opportunities for future development and adaptive capacity. The coordinating institution (cluster broker) is required in order to boost the SMEs involvement and sustain their activity in the longer-term.

## **Conclusion**

Tourism has become an integral component of our lifestyle and thus a global industry, with producers and consumers spread throughout the world. The future trends for tourism seem to suggest that travellers will be especially concerned with not just being "there", but with participating, learning and experiencing the place they visit.

Polish tourism regions (destination areas) seem to be too weak to confront modern tourism expectations. They need an innovative approach and a strict analysis of their tourism potential. The numerical superiority of SMEs in the Polish TDAs makes it extremely difficult to coordinate efforts aimed at cluster formation. Moreover the SMEs anxiety to cooperate (dominance of competitive relations over the cooperative ones), low level of social trust and the reluctance to cooperate with local authorities makes it extremely difficult to start new initiatives. It is worth to consider whether the RTOs and LTOs (although they differ in many aspects from tourism clusters) could be a starting point of the cluster initiative or even the temporary cluster broker.

To sum up it can be stated that:

- RTOs/LTOs can be transformed into the tourism cluster if their members are innovative and entrepreneurial, local authorities display low level of bureaucracy and formalization, and the cooperating institutions represent high knowledge sharing inclination
- The possibility to limit the influence of political factor is a very important determinant of the transformation.
- Cooperation of local entities, irrespective of their motives and reason to form the cluster, will significantly contribute to the creation of integrated and innovative tourism region, positively influencing its competitiveness.

The Polish Tourism Organisation needs local agendas in order to audit the chance of regional and local cluster formation as well as the future evaluation of cluster member efforts. RTOs and LTOs are natural partners who have already gained some experience in the development of local tourism product and quality improvement of TDAs' offer.

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### **Abstrakt (in Polish)**

*Strategia rozwoju i wzmocnienia konkurencyjności obszarów recepcji turystycznej coraz częściej odwołuje się do koncepcji tworzenia klastra turystycznego. Wątek ten stał się także tematem wiodącym prac Polskiej Organizacji Turystycznej, wdrażającej nowy program komercjalizacji polskiej oferty turystycznej oraz wsparcia procesu integracji (poziomej i pionowej) MSP turystycznych, ukierunkowany na wzmocnienie innowacyjności polskich regionów i przedsiębiorstw turystycznych. Głównym celem artykułu jest wskazanie uzasadnienia dla koncepcji tworzenia klastrów turystycznych w polskich warunkach, sformułowanie głównych cech klastra turystycznego oraz ich zestawienie z cechami działających w Polsce regionalnych i lokalnych organizacji turystycznych, które mogłyby stanowić punkt wyjścia dla tworzenia nowoczesnych struktur klastrowych w polskiej turystyce. Zagadnienie wpływu klastrów na efektywność MSP oraz konkurencyjność obszarów recepcji turystycznej odniesiono do dokonań teorii ekonomii.*

**Słowa kluczowe:** *klaster turystyczny, definicja, sieć współpracy, konkurencyjność, obszar recepcji turystycznej.*

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# Personnel as a Factor of Production in Development of Regional Tourism Economy – a Conceptual Paper

*Aleksander Panasiuk\**

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## **Abstract**

*Tourism economy appears in every sphere of economy: production of goods and services, their division, exchange and consumption; it also occurs in the majority of the national economy branches that directly or indirectly deal with meeting tourist demand. The majority of economic processes in tourism sector are realized by direct tourism economy and its representatives, tourist entrepreneurs. Territorial self-government units and tourist organizations play a significant role in formation of economic processes in tourism sector on the regional and local levels. The classic economy distinguishes three basic production factors: labor, land and capital. In the modern approaches they are completed with the fourth that has different names. Beginning with technical and organizational progress which is a logic extension of coexistence and cooperation of three basic factors, ending with information and knowledge – treated as the most modern factors of production in the so-called new economy. In the totality of activities of tourism economy entities, a special role should be ascribed to the personnel, namely human potential of tourism economy entities.*

**Keywords:** *factors of production, personnel, regional tourism economy.*

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## **Introduction**

Tourism economy appears in every sphere of economy: production of goods and services, their division, exchange and consumption; it also occurs in the majority of the national economy branches that directly or indirectly deal with meeting tourist demand. In a system approach, tourism economy is defined as a system of correlations emerging during the process of fulfilling tourist's needs, correlations between institutions and organizations realizing the process (Nowakowska, 1988, pp. 169-171). This system includes all activities aimed at meeting touristic demand, from a natural environment adaptation to the needs of touristic movement to creating conditions enabling tourism development.

Tourism economy is one of the elements of national economy structure, which penetrates other sectors and is supported by other economic sectors.

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The majority of economic processes in tourism sector are performed by direct tourism economy and its representatives, touristic entrepreneurs. Territorial self-government units and tourist organizations play a significant role in formation of economic processes in tourism sector on the regional and local levels.

State, understood as a set of political institutions that operate in relation with civil society, is a regulator of tourism economy processes. In that approach, the term state comprises the whole system of exercising public power, a system that mainly consists of elected politicians and entities of public sector (state's institutions) (Pender and Sharpley, 2005, p. 270).

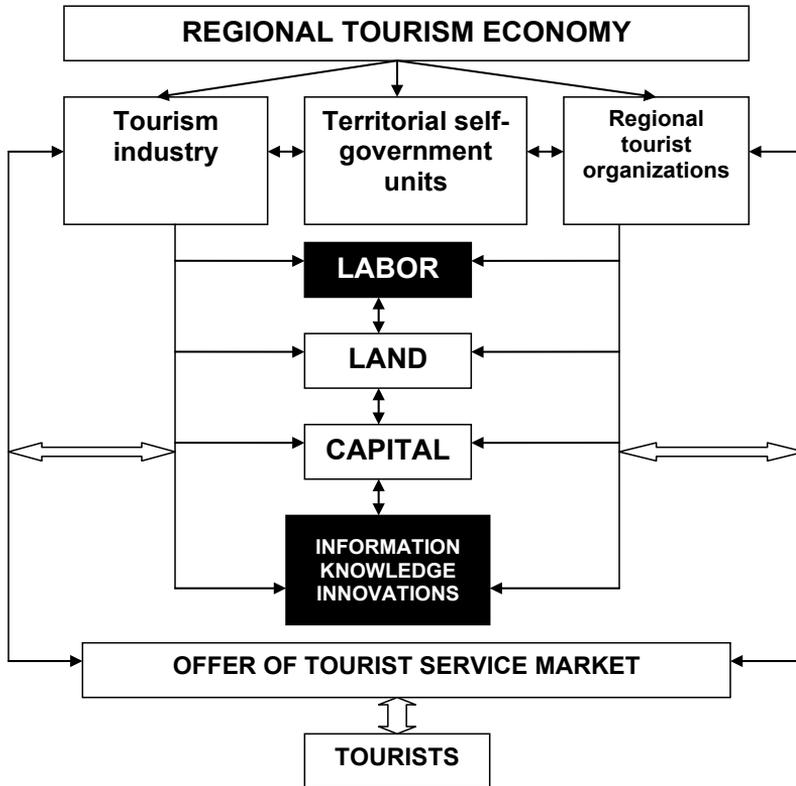
In the totality of activities of tourism economy entities, a special role should be ascribed to the personnel, namely human potential of tourism economy entities. The aim of this publication is to present the role of personnel in development of regional tourism economy and an indication of the human relationship models.

### **Production factors in tourism economy**

As in the whole economy, production factors are essential for realization of final effects also in the tourism sector. Production factors are all inputs involved in the production of goods and services. The classic economy distinguishes three basic production factors: labor, land and capital. In the modern approaches they are completed with the fourth one that has different names (Sullivan, 2003, p. 4), ranging from technical and organizational progress which is a logical extension of coexistence and cooperation of three basic factors, to information and knowledge – treated as the most modern factors of production in the so-called new economy (Filipiak and Panasiuk, 2008, pp. 127-129).

Figure 1 presents a system of production factors in the tourism economy (Panasiuk, 2011, p. 91) Considerations taken up in this paper refer to the relations between two, from those presented in the figure 1, production factors in tourism economy:

- labor – personnel employed in the tourist companies, employees responsible for tourism in the territorial self-government units, employees of regional tourist organizations and other tourist organizations and associations operating in region,
- information, knowledge, innovations, which are direct factors of the development of regional tourism economy.



**Figure 1.** Relations in the structure of production factors of regional tourism economy

### Personnel in tourism

Human factor plays a significant role in services, what distinguishes this sphere of economy among the others (Riley, 1996). Number and qualifications of employees are basic indicators of the level of services supply. Value of work is a dominating element of cost structure in most services, especially in entities providing services. It should also be underlined that services usually require highly qualified work, more complicated than most areas of material production. Real situation on the service market can be judged through the prism of changes in the sphere of employment (Panasiuk, 2002, pp. 82-85).

In the tourism sector, potential of labor is formed by employees of particular entities, especially of tourist companies (Tokarz, 2008, pp. 32-33) and territorial self-government units.

In case of companies – labor is human’s intentional operation consisting in changing natural goods and adjusting them to fulfilling human’s needs,

which is usually paid. It can be considered in a quantitative approach as well as qualitative one. The employment rate is used in quantitative estimation while education and seniority are taken into consideration in qualitative estimation. Company should employ the right number of suitably qualified personnel in order to operate effectively in the market economy.

Activities related to the operation of direct tourism economy are mainly taken up by: companies' owners, managers and units' directors. This personnel creates the scope of cooperation with other participants of supply side of the tourism market and they take part in tasks initiated by territorial self-government and tourist organizations. The accomplishment of exploitive tasks lies in the competences of front personnel and influences the extent in which tourists' needs are satisfied (Panasiuk, 2008a, pp. 151-157).

Beside personnel of entities providing tourist services, employees of territorial self-government have significant influence on the shape of regional tourism economy. They are responsible for the range of creation of tourist function. Their competences refer mainly to the municipal and city areas and regions (self-government voivodeships). Among basic competences of employees of units responsible for tourism development are: influencing creation of local infrastructure including tourist tracks, tourist information, tourism promotion, events organization, cooperation with other entities (entrepreneurs and organizations).

Affecting development of local and regional tourism economy lies within the competences of self-government authorities: commune heads, mayors, presidents and marshals and councils of all levels. Effects of their activities are: description of tourism development strategy, conducting tourism policy, current decisions and direct cooperation with representatives of other entities, inter alia within the operation of local and regional tourist organizations.

Significant competences in the field of regional tourism economy are also possessed by the representatives of tourist organizations (managements) including local, regional and also tourist sector self-government. It should be assumed that the basic range of competences of tourist organizations' personnel is related to engaging in wide cooperation with representatives of other institutions and companies in local, regional, domestic and international dimension. Cooperation is concentrated on joint initiatives related to the creation of tourist products, financing those activities, tourism promotion etc.

The final effect of tourist personnel operation is an integrated tourist product, which is a result of joint activities based on the agreement and seeking for joint benefits for entities of supply side of tourism market, considering needs of tourists arriving in tourist destinations.

## **Information, knowledge, innovations in tourism economy**

The last production factors presented in Figure 1 is information/knowledge/innovations. In the modern economy this factor, used in economic processes, determines social and economic development (Dewan and Min, 1997). Its significant influence is visible especially in the long term. It is the resources of that factor not the natural resources that determine the economic position of a particular national economy.

Broadly understood information including aspects of knowledge and innovations becomes a basic production resource in economic processes. Not every item of information appearing in the economy is a production factor. A production factor is only that kind of information that has features of an economic resource. Information economic resources are all potentially useful sets of information, gathered and stored in time, place and by means of technologies and by organizations enabling their utilization by final users operating as economic entities in the economy. In other words, a production factor is knowledge about how to utilize labor, land and capital in order to provide services.

In the conditions of tourist services market, information is utilized as:

- knowledge, namely potential which should be properly managed,
- basis for taking up market decisions, by means of market researches aimed at competition and consumers,
- data base on potential of tourist areas (tourist virtues, tourism infrastructure, entities' tourist offer),
- form (technology) of contact, offer presentation and finalizing transactions with consumers and partners by means of modern reservation systems and the Internet,
- subject of entities' operation on tourism market, especially services in the field of tourist information in a wide meaning.

Without current and reliable information clients would have limited possibilities of developing their tourist needs and finding offers fulfilling those needs. On the other hand, entities offering tourist services would not be able to create tourist offers and effectively launch them on the market.

From the point of view of tourism economy entities, information is an element of an economic process thanks to which it is possible to take fast and effective market decisions in contacts with clients and partners. It allows tourism economy, in aerial approach, to form the whole processes of tourist products creation, their market identification, image creation and integration of cooperation between particular entities of tourism economy: entrepreneurs, self-government units, tourist organizations. One of the most significant issues in that field will be an activity related to the research projects with participation of tourism sector entities, territorial self-government

and other institutions aiming at development of local and regional tourism economy (including scientific units).

Information, thus, is entrepreneurs' tool by means of which it is possible to take decisions about changes in the company. A pre-condition for implementing changes is entrepreneurship. Entrepreneur creates innovative (Drucker, 1992, p. 29) atmosphere and necessary structures gaining knowledge and capital. Change in the company becomes innovation in a proper scale only when it is accepted by stakeholders and strengthened in the form of new standard practices, procedures and products. Innovations in services can take the following forms (Gołembski, 2007, p. 62):

- organizing solutions for a new problem, new problems can be formulated by clients or created by innovative service providers who foresee demand changes. Identification of problems can result from the interactions between the provider and the client,
- more effective way of finding solutions to problems known type (changes in methods, processes, technical systems).

The first type of innovation is described as product innovation while the second one as process innovation.

Innovativeness in tourism economy can be expressed by (Page, 2005, p. 267):

- Implementation of new goods and services or improving existing ones, e.g. new forms of hotel guests servicing.
- Implementation of new methods of productions, e.g. low-budget hospitality.
- Opening of new markets for tourist movement from the western countries, e.g. Eastern Europe countries,
- New sources of products supply, e.g. local victuals.
- Creation of the new type of organization, e.g. low cost airlines.

Creation of friendly environment for companies, especially from small and medium-sized enterprises sector (SME) lies within the competences of the institutions of business surrounding. Supporting centers are most often defined as institutions aiming at widely understood entrepreneurship support. The operation of those units consists in (Matusiak, 2005, p. 107):

- supporting entrepreneurship, self-employment, enabling newly created, private companies to start; promotion and improvement of SME competitiveness;
- bringing conditions for the transfer of new technological solutions to the economy and realization of innovative ventures;
- lifting the quality of human resources by education, training and consulting and popularization of positive patterns of action;
- utilization of resources and realization of infrastructural undertakings;

- creation of network of cooperation and partnership between many entities operating towards the development acceleration, increase of prosperity and wealth of inhabitants (Niedzielski, Dołowy, Milewski and Szostak, 2008).

Cooperation between companies and entities of business surrounding in the aspect of innovative processes leads to the formation of cluster structures. A cluster is a group of companies and related institutions, lying in the geographical neighborhood, operating in a particular field, linked together by similarities and mutually completing. An essential element of cooperation within a tourist cluster is a continuous flow of knowledge and information (Milewski, Panasiuk and Szostak, 2005).

A cluster is a spatial concentration of companies, institutions and organizations mutually linked with expanded net of formal and informal relations, based on joint way of development (e.g. technological, joint target markets etc.), competing and cooperating in some aspects of operation at the same time. A cluster can be a tool of increasing competitiveness and innovativeness of local tourism economies. It is also a kind of not wholly formalized net of economic entities and supporting organizations, linked together by informal exchange of knowledge and information (Polski klaster morski, 2004, p. 4).

From the point of view of tourism economy, an access to the natural resources or existence of specific natural conditions in a particular field of regional economy, is a determining factor for clusters emergence. In case of such a cluster, its important elements are tourist values around which tourism infrastructure is created, infrastructure enabling consumption of benefits related to the utilization of those values. A particular tourist area may have many touristic entities mainly providing tourist services (hotels, entities from the gastronomical sector, tour operators and tourist agents, transport systems entities, entities managing tourist attractions), as well as around – touristic, supporting operation of typical tourist companies (Panasiuk, 2008b).

### **Author's concept models of personnel relations in tourism economy**

The structure of production factors in tourism economy determines its operation. Cooperative relations between representatives of:

- economic entities of direct tourism economy,
- territorial self-government units of every level,
- economic self-government units in tourism,
- regional and local tourist organizations.

are vital in that field. Cooperation generally refers to the following aspects of tourism economy functioning:

- tourist product offer and creation,

- development of tourism infrastructure, including creation of tourist trails,
- applying for financing, especially for European funds,
- local and regional tourism promotion,
- tourist personnel training,
- over regional, cross- boarding, Euro-regional and international aspects,
- taking up innovative activities.

The basic platform of cooperation are local and regional tourist organizations. It can also refer to the other form of cooperation, e.g. by means of economic self-governments or single initiatives.

Cooperation between representatives of companies, organizations and territorial self-government units comprises mainly activities taken up on the highest level, namely owners and management of economic entities, representatives of self-government authorities, directors of units responsible for creation of tourist product, authorities of economic self-government organizations and tourist associations, regional authorities and local tourist organizations.

The following model concepts of personnel relations on local and regional level are possible:

- model of tight cooperation,
- model of limited cooperation,
- model of disintegration,
- model of competition,
- model of conflict and crisis.

The first model – of tight cooperation is related to the agreement between personnel of particular companies and institutions and to the realization of joint market policy. It consists in good human relations and integration around common goals. In that field, realization of innovative goals in tourism economy is the easiest for tourist staff. In practice, that model can be applied in regional and local tourist organizations, where economic entities, self government entities and organizations are strongly represented and implemented goals reflect interests of surrounding entities and inhabitants as widely as possible. Moreover, their activity is not determined by political goals.

The second model – of limited cooperation is a partial version of the first one. Its existence results from the limited representation of entities involved in tourism economy development, which accounts for the fact that realized tasks do not reflect all interests. This model is the most frequently applied one in the practice of operation of regional tourist organizations in Poland.

The next model - of disintegration consists in the lack of agreement and forms of cooperation between representatives of tourism sector. Activities in the field of tourism economy development are taken up individually by

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representatives of particular entities. That system can be observed in situation when institutional forms of cooperation haven't been established in regions or when there are not enough entities in regional tourist organizations and there are not any certain results of cooperation.

The model of competition can be observed in two situations, namely in conditions of:

- operating and conducting effective activities by regional tourist organizations,
- limited scale of operation of regional tourist organizations or in the situation when an organization has not been established yet.

In both situations, market entities, mainly entrepreneurs but also self-governments and tourist organizations, can take up competitive activities related to the chosen aspects of tourist product creation or to all tasks, even competitive to the tasks of an organization they are part of. Examples of those activities refer especially to the competition between tourist entrepreneurs and they aim at winning market share, and in case of self-governments at gaining funds for development. Competing for obtaining the right to implement tasks and their financing can be an example here.

The model of conflict and crisis could be:

- a deepened model of competition followed by representatives of tourist entities concentrating on their own goals and limiting market position of other market participants,
- an obvious action of representatives of companies, self-governments and organizations against representatives of another, it consists in fighting for a position in an environment and especially it refers to the attempts at elimination of activities directed at implementation of innovations in tourism economy (activities taken up by other companies).

It leads to the disintegration of activities directed at the tourism economy development until a crisis in operation of regional tourist organizations and at the end to the limitation of their functions, even to the possible break of their operation.

Undoubtedly, the best effects can be achieved by means of the model of tight operation. From the point of view of market effects, using the model of competition could also be beneficial and it could result in a wider offer with better prices. The model of conflict and crisis, often observed in practice, beside some of its positive effects, in the scale of the whole tourist area, leads to the adverse situation and may cause the damage of other entities' effects and consequently may limit the effectiveness of regional tourism economy operation and limit pro-innovative activities. A basic problem in that field is linking or even identifying the tasks of regional tourist organizations with the tasks of regional self-governments.

## Conclusion

The above considerations could be a basis for an attempt to describe which model of personnel relations occurs in a regional tourism economy and how the particular model influences innovative processes which are the basis for the development of regional tourism economy. As it results from the above considerations, pro-innovative policy can stimulate full cooperation among the regional tourism economy. A basis for activity is an innovative consciousness, thanks to which it is possible to form competitiveness toward other tourism economies, especially neighboring ones. Knowledge and access to the finance as well as personnel should be ranked as a basic condition for implementation of innovative activities on the regional tourism economy level. From the institutional point of view, pro-innovative activities in regional tourism economy should be led by tourist companies on the micro level and by regional self-government and regional tourist organizations on the macro level. Tourist clusters could be seen as a parallel form to the operation of regional tourist organizations.

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### **Abstrakt (in Polish)**

*Gospodarka turystyczna obejmuje niemal każdą sferę gospodarki narodowej: produkcję dóbr i usług, w sferze ich podziału, wymiany i konsumpcji. Występując w większości branż gospodarki, bezpośrednio i pośrednio oddziałuje na popyt turystyczny. Większość procesów gospodarczych w sektorze turystyki jest realizowanych poprzez bezpośrednie podmioty gospodarki turystycznej i jej przedstawicieli, tj. przedsiębiorców turystycznych. Terytorialne jednostki samorządu terytorialnego i organizacje turystyczne odgrywają istotną rolę w tworzeniu procesów gospodarczych w sektorze turystyki na szczeblu regionalnym i lokalnym. W ekonomii klasycznej wyróżnia się trzy podstawowe czynniki produkcji: praca, ziemia i kapitał. W nowoczesnych koncepcjach, wyodrębnia się także czwarty, któremu nadaje się różne znaczenia i nazwy, począwszy od postępu technicznego i organizacyjnego, który jest rozszerzeniem logiki współistnienia i współdziałania trzech podstawowych czynników, kończąc na informacji i wiedzy – traktowanych, jako najbardziej nowoczesne czynniki produkcji w tak zwanej nowej ekonomii. W całości działalności podmiotów gospodarki turystycznej, szczególną rolę należy przypisać pracownikom, a mianowicie potencjałowi ludzkiemu podmiotów gospodarki turystycznej.*

**Słowa kluczowe:** *czynniki produkcji, personel, regionalna gospodarka turystyczna.*



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# A Born Global Gradually Advancing Its Internationalization - a Case Study of Internationalization Process of a Small Tour Operator in a Niche Market

*Karolina Nessel\**

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## **Abstract**

*Today much is already known about the internationalization patterns of small and medium enterprises (SMEs). However, the research has mainly focused on outward internationalization and more in manufacturing industry than in services (and hardly in the tourism industry). Thus, the paper undertakes an exploratory research in order to verify to what extent the common framework of analysis may explain an internationalization path of SMEs in the tourism sector. To this goal, a case study of a small tour operator in a niche market of weddings abroad in Poland is undertaken. The research seeks to match the firm's internationalization characteristics with considerations of two dominant theories of SME internationalization: stage models of gradual internationalization (so called behavioral models) and models of early and rapid internationalization (businesses called 'born globals' or 'international new ventures').*

*The main findings of the study are twofold. Firstly, even if the general framework of the analysis suits a case of a small tour operator well, still there is a need to adapt the general framework to industry features (in particular, in terms of organization capabilities). Secondly, a further research should also take into account heterogeneity of international activities (in terms of their antecedents and process). Even if a firm is born global, its further internationalization may well be incremental in nature. In particular, an early and rapid internationalization through imports may lead to a gradual internationalization through exports. The former may result from a proactive attitude, be strategy driven, and implied by characteristics of the market and product (well in lines with models of an early and rapid internationalization). The latter, however, may stem from a rather passive attitude with almost no resource commitment (more in lines with models of a gradual and slow internationalization).*

**Keywords:** *SMEs, internationalization, stage models, behavioral models, born global firms, international new ventures, international entrepreneurship, tourism industry, tour operator, niche market.*

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## Introduction

We have a chance to live in a fast globalizing and shrinking world. Advances in information, telecommunication, and transport technologies combined with a political will of economic liberalization after the world war two have swept many age-old barriers for entrepreneurs from a vast majority of the globe. The political and economic distances for business have shrunk and new vast markets have opened up. Thus reconfigured space has been filled with regularly intensifying international flows of capital, goods, services, technology, and information propelled by profit maximizing firms exploiting new opportunities. Corporations and individual entrepreneurs internationalizing their operations have been making the economic globalization of our world - with all the costs and benefits of the process.

Not surprisingly, the process of internationalization has been widely studied by scholars. In fact, it was already Adam Smith, the founding father of economics, who wondered why individuals/firms/nations trade with each other. His idea of an absolute advantage (Smith, 1976) has been later developed into the concept of a comparative advantage and elaborated by other classical and neoclassical economists (Ricardo, 1817; Ohlin, 1933). The modern economics has completed the picture with theories of international product life cycle (Vernon, 1966), transaction costs (Williamson, 1973), monopolistic advantage (Caves, 1971; Hymer, 1976), and finally with the eclectic paradigm for international production (Dunning, 1981).

Yet, the abovementioned theories are better in explaining an internationalization of nations and big multinational corporations than cross-border activities of small and medium enterprises (SMEs). Furthermore, most of the literature has been focused on firms manufacturing and trading goods rather than services. Clearly, the internationalization process of service companies has some specificities due to the simultaneity of production and consumption. The issue becomes even more specific in the case of tourism services with the (non local) mobility of the markets.

Hitherto, the internationalization of the tourism services by SMEs has been relatively neglected and clearly in need of more solid theoretical underpinnings (Shaw and Williams, 2004, Agndal and Elbe, 2007, Hjalager, 2007, Williams and Shaw, 2011). The question is of importance as the globalization is widely acknowledged to deeply influence the tourism industry (Lanfant, 1995; Fayed and Fletcher, 2002; Johnson and Vanetti, 2005).

Therefore, the paper undertakes an exploratory research to verify to what extent the common framework of analysis may explain an internationalization path of SMEs in the tourism sector. To this goal, a case study of a small tour operator in a niche market of weddings abroad in Poland is undertaken. The research seeks to match the firm's internationalization characteristics

with considerations of two dominant theories of SME internationalization: stage models of gradual internationalization (so called behavioral models) and models of early and rapid internationalization (businesses called 'born globals' or 'international new ventures').

This paper is organized as follows. The next part of the paper reviews the main theoretical approaches to the small business internationalization. The conceptual framework of analysis is presented in the third part, while the methodology makes the fourth section of the paper, followed by the case study. The final section concludes and proposes future research lines.

## **Literature review**

The section briefly reviews the research on two main patterns of SME internationalization and propositions of a holistic model integrating conclusions from the two approaches.

### **Stage models of internationalization**

Research on SME internationalization began in 1975 when Johanson and Wiedersheim proposed a model in which a firm starts operations in its domestic market and only later gradually engages in foreign markets (Johanson and Wiedersheim, 1975). The engagement in transnational activities grows as the firm acquires international experience, which is a reinforcing phenomenon (Johanson and Vahlne, 1977, 1990; Bilkey and Tesar, 1977; Cavusgil, 1980; Reid, 1981).

Thus, a couple of stages in internationalization process may be indicated. The literature is abundant in different categorization of stages (e.g. Bilkey and Tesar, 1977; Czinkota, 1982; Cavusgil, 1984; Andersen, 1993, McDougall, Shane, and Oviat, 1994; Moini, 1995, Leonidou and Katsikeas, 1996, 1997; Coviello and McAuley, 1999), but in general the researchers follow the establishment chain proposed by the Uppsala internationalization process model (Johanson and Vahlne, 1977). In the initial stage firms operate only in domestic market, with no international activity. Then first, often unsolicited occasions of irregular imports or exports appear. These occasions allow for an accumulation of experience, know-how, information, and contacts and give courage to engage in a regular export/import activity in near foreign markets. Exports may be initially conducted through intermediaries (agents, licensing, franchising) and later - if successful- directly by the company itself (sales subsidiaries). The direct presence in foreign markets decreases the perceived distance (so called psychic distance) and supports a deeper involvement and production factors relocation (eventually an overseas manufacturing subsidiary). The psychic distance corresponds to the liability of foreignness, a disadvantage of foreign firms in relation to domestic ones when competing

in a national market. According to the initial Uppsala model, the psychic distance decreases with market knowledge and market commitment (the later being a function of the size of the inflexible investment). As learning and commitment building take time, an internationalizing firm increases its commitment in a given market and moves into more distant and risky ones only progressively.

The successive work on business networks has proved the utility of network approach in explaining the internationalization process, especially of SMEs, and particularly in an early phase of their engagement in foreign markets (Coveillo and Munro 1995, 1997; Welch and Welch 1996; Martin, Swamintharn and Michell 1998; Chetty and Blankenbourg Holm, 2000; Ellis 2000). Some studies have shown the importance of relationships with the key partners in the process of internationalization (Sharma and Johanson 1987; Bonaccorsi 1992). These relationships often develop through social exchange process between key managers, which results in greater trust and knowledge, and finally greater mutual commitment (Dwyer, Schurr and Oh, 1987; Anderson and Wietz 1992). Being an insider of a network present in a foreign market decreases psychic distance and facilitates foreign expansion. Thus the updated version of Uppsala model places the liability of being an outsider at the roots of uncertainty, and hence makes it a very important factor impeding a successful internationalization (Johanson and Vahlne, 2009). Accordingly, being an insider facilitates acquiring knowledge and recognition/creation of opportunities, which leads to decisions and commitments relating to relationships and trust building, as well as to further learning. This way, there is a rise in the foreign markets commitment plus a change in the network position. The latter in turn determines the further potential for knowledge accumulation and opportunities recognition.

The stage theories of internationalization have been classified as behavioral, while they suggest that firms internationalize in a deliberate, incremental way learning from markets and networks and gradually increasing their commitment to these. This view has been challenged by an important evidence of growing number of firms international since their beginnings.

### **Early and rapidly internationalizing firms**

In the last thirty years, as business networks and alliances, service and Internet-driven economy gained importance, the pool of available managerial skills worldwide enlarged, and homogenization of many markets advanced, conditions for internationalization of SMEs have radically improved. The pace of internationalization of some of SMEs has accelerated dramatically, and a new group of early and rapidly internationalizing firms (ERIFs) has emerged

(in the literature these firms are usually called 'born-globals' or 'international new ventures', but a few other terms are also used\*\*).

ERIFs are internationally oriented since their inception and often extensively internationally involved, while their management perceive the world as their marketplace from the outset. Naturally, this is in contrast to the stage model of gradual internationalization. For the ERIFs activities on foreign markets (often simultaneously on many distant ones) are fundamental for their competitive advantage, internationalization of their operations being at the core of their business model. Their internationalized activity may be of different form (outward or inward - Hessels, 2008), even if the most widely used concept of an early and rapidly internationalizing firm is based on their superior exports performance in multiple countries (Rennie, 1993; Oviatt and McDougall, 1994, 1997; Knight and Cavusgil, 1996; Autio, Sapienza and Almeida, 2000; Madsen, Rasmussen, and Servais, 2000; Moen, 2002; Moen and Servais, 2002).

Main developments to the basic model of ERIFs (originally proposed by Rennie, 1993, McDougall et al., 1994; Oviatt and McDougall, 1995), have searched to determine factors accelerating the pace of internationalization of small businesses operating usually under important constraints of scarce financial, human and tangible resources. Besides new market conditions and technological developments, studies have focused mainly on resources, knowledge and capabilities of the entrepreneur, managers and the organization itself. In this context, the research has underlined a prior international experience of the founder and managers (Oviatt and Ougall, 1997; Madsen and Servais, 1997; Anderson and Victor, 2003), their managerial capacities (Zahra, 2005), learning orientation and a global mindset (Weerawardena, Mort, Liesch, and Knight, 2007), innovative culture and organizational capabilities (Knight and Cavusgil, 2004), and extended international personal networks (Chetty and Campbell-Hunt, 2003, 2004; Oviatt and McDougall, 2005; Coviello 2006).

The study of ERIFs is a subset of the research in international entrepreneurship in its cross-border activity perspective. Oviatt and McDougall have defined the international entrepreneurship as: "(...) the discovery, enactment, evaluation, and exploitation of opportunities - across national borders - to create future goods and services" (Oviatt and McDougall,

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\*\* Various definitions of the phenomenon are employed by researchers: 'born globals' (Rennie, 1993; Knight and Cavusgil, 1996; Madsen and Servais, 1997; Aspelund and Moen, 2001; Sharma and Blomstermo, 2003; Gabrielsson and Kirpalani, 2004); 'international new ventures' (McDougall et al., 1994, 2003; Oviatt and McDougall, 1994, 1997); 'born international' (Kundu and Katz, 2003); 'new entrepreneurial ventures' (Brettel et al., 2009); 'global smaller firm' (Dimitratos et al., 2010); 'instant exporters' (McAuley, 1999); 'early internationalizing firms' (Rialp et al. 2005a); 'global start-ups' (Oviatt and McDougall, 1995); 'micromultinationals' (Dimitratos et al., 2003); 'instant internationals' (Fillis, 2001); 'instant exporters' (McAuley, 1999). In this study, the term of 'early and rapidly industrializing firms' (ERIFs) is used (following Madsen; 2013) in order to encompass various different but overlapping expressions describing the phenomenon.

2005, p.540). The academic literature presents the entrepreneurship as creation of a new economic activity (Davidsson, Delmarr and Wiklund, 2006) upon an opportunity recognition and exploitation (Kirzner 1979). Yet, entrepreneurship is not only about innovation, it also involves risk-taking and pro-activeness (Covin and Slevin, 1989; Lumpkin and Dess, 1996). The international dimension of entrepreneurship in the context of ERIFs is present in a creation of new international venture (McDougall, 1989) or a new international activity of an established SME (Lu and Beamish, 2001). Clearly internationalization is entrepreneurial as it requires accepting a higher level of risk than domestic market operations (Lu and Beamish, 2001; Leiblein and Reuer, 2004), demands an innovation in choosing markets, forms of entry and adapting products (Zahra et al., 2001; Leiblein and Reuer, 2004), stems from a proactive attitude of generating growth and wealth through strategic exploitation of foreign markets (Lumpkin and Dess, 1996; Zahra, Kuratko and Jennings, 1999).

The research in international entrepreneurship has been a valuable input into understanding internationalization of SMEs - either gradually or at inception. As it has focused mainly on antecedents of the process of SME internationalization, a lot is already known about facilitating and inhibiting factors at the micro-level. In general, these factors may be categorized into three groups: individual entrepreneur-specific factors, firm-specific factors, environment-specific factors (Ford and Leonidou, 1991; Antoncic and Hisrich, 2000; Ibeh, 2006). This classification may be useful in constructing a holistic model of SME internationalization.

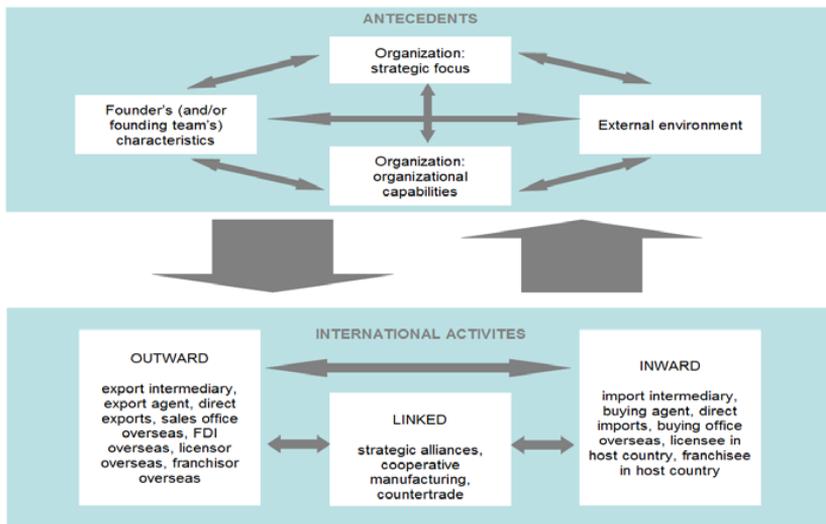
#### **Towards a holistic model of SME internationalization**

There has been a clear need to integrate different research conclusions on the SME internationalization. Or, some researchers have argued that besides firms entering foreign markets incrementally and firms international already at founding, there are also firms starting their international expansion in a progressive way, but then accelerating enormously after a critical event (so called 'born-again global' Bell et al., 2003). This would suggest that stage models and models of ERIFs are just extreme points of a continuum. Besides, Madsen and Servais (1997) argued that even if ERIFs internationalize in a different way at the manifest level, they are not necessarily different from other firms evolving more in lines with stage models. Thus, the both theories may be more complementing than competing.

One of the propositions of such an integrated model was presented by Fletcher (2001), who divided international activities into three forms: outward (e.g. exports, outward foreign direct investment), inward (e.g. imports), and linked (e.g. strategic alliances). This categorization

underscores a possibility of initial internationalization other than exports. Moreover, according to Fletcher, the engagement in one of these activities influences the probability of taking on other activities (e.g. an inward driven internationalization may lead to exports and vice versa), and linked activities may be driven by outward or inward internationalization. This interaction, combined with internal and external factors determines not only speed but also direction of internationalization process (as there is also a chance of de-internationalization). The same factors influencing outward forms of internationalization determine as well inward and linked forms.

Integrating Fletcher’s framework with conclusions from international entrepreneurship (in particular the work of Rialp, Rialp, Urabano, and Vaillant, 2005), the holistic model of SME is presented in Figure 1.



**Figure 1.** A holistic approach to internationalization process and its antecedents

Source: Author’s adaptation of Fletcher (2001) and Rialp et al. (2005).

In Figure 1, different than in the original Fletcher’s model, internal and external factors have been categorized into four subcategories proposed by research on international entrepreneurship. The goal of the modification is to underscore the key role of entrepreneur’s characteristics in a small firm (as the paper is devoted to a case study of a micro firm).

## Conceptual framework

Based on the above discussion, a conceptual framework is presented where the four main subcategories of factors determining the pace of internationalization are explored. The goal is to summarize expected forces pushing firms toward one of the two extreme internationalization patterns (gradual versus rapid internationalization). The three dimensions (founder's characteristics, organizational capabilities, strategic focus) are a slight adaptation of the framework proposed by Rialp et al. (2005), where a possibility of internationalization through imports has been included (while the original framework was proposed only for exporting firms). The attributes of the fourth category (external environment) result from the analysis of Madsen and Servais (1997). In Table 1 the four categories and their matching attributes are presented.

**Table 1.** Excepted factors associated with gradual internationalization versus early and rapid internationalization

Attributes	Early and rapid internationalization	Gradual internationalization
<b>Founder's (and/or founding team's) characteristics</b>		
Managerial vision	Global from inception.	International markets to be used gradually after a significant development of domestic markets base.
Prior international experience	High degree of previous international experience.	Irrelevant or low degree of previous experience in international issues.
Managerial commitment	High and dedicated commitment with early internationalization efforts and challenges.	General commitment with objectives and task but not directly related to internationalization.
Networking	Stronger use of both personal and business networks at the local and international level. Crucial to firm early, rapid, and successful global market reach.	Loose network of personal and business partners (only those fitting a path of gradual internationalization).
<b>Organizational capabilities</b>		
Market knowledge and commitment	High from the very beginning due to superior internationalization knowledge at inception.	Slowly growing with previously accumulated domestic and foreign market knowledge.
Intangible assets based on knowledge management	Unique intangible assets (based usually on knowledge management processes) are critical for early internationalization purposes.	Availability and role of intangible assets are less important for successful gradual internationalization.

Value creation sources	High value creation through product differentiation, leading-edge technology products, technological innovativeness, and quality leadership.	Less innovative and leading edge nature of its products resulting in a more limited value creation capability.
<b>Strategic focus</b>		
Extend and scope of international strategy	A niche-focused, highly proactive international strategy developed in geographically spread lead markets around the world from inception.	A more reactive and less niche-focused international strategy. International markets will, at best, be developed serially and in order of psychic distance.
Selection, orientation, and relationships with customers and suppliers	Narrowly-defined customer/suppliers groups with strong customer orientation.	In the hands of intermediaries in the early stages of internationalization.
Strategic flexibility	Extreme flexibility to adapt to rapidly changing external conditions and circumstances.	Limited flexibility to adapt to rapidly changing external conditions and circumstances.
<b>External environment</b>		
Perceived external barriers	Low perceived external barriers to internationalization.	High perceived external barriers to internationalization, decreasing gradually with trans-border successes or with a positive evolution of the external environment.
Perceived external incentives	Important perceived market, industry- and government- based incentives (i.a. accessible public support, significant internationalization of the market, high specialization of the firm, strong need for economies of scale and short product life cycle).	Weak perceived market-, industry-, and government-based incentives, decreasing gradually with trans-border successes or with a positive evolution of the external environment.

**Source:** Author's adaption of Rialp et al. (2005) and Madsen and Servais (1997) .

The above overview of attributes of the two extreme internationalization patterns is the one often applied in the literature. However, these attributes are usually used in cases of export-led internationalization, more often in manufacturing than in service sector (and hardly in case of the tourism industry). To verify if there is really a need to adapt these patterns and theories to the tourism industry, an internationalization path of a small tour operator in Poland is analyzed in the further part of this study.

## Methodology

In order to understand how the internationalization pattern of a tourism company fits the predictions of the two theories, a qualitative research in the form of a single case study was applied. The qualitative methodology permits the researcher to get at the inner experience of participants and establish a personal contact with them (Strauss and Corbin, 1990), which is particularly valuable in the case of research on small business where the entrepreneur's personal characteristics and attitude are primordial. The case study approach was selected due to an exploratory character of the study, and because it allows for an in-depth investigation of an event, activity, process or individual bounded by time and activity (Creswell, 2003). A limitation to a single case study was chosen as it allows for an even deeper investigation of a phenomenon in order to provide a rich description and understanding (Walsham, 1995), especially when the research questions are 'how' and 'why' (Yin, 1994).

The sample selection was based on criteria following from the above discussed theories of SME internationalization (a small business actively involved in an internationalization process), the goal of the study (an SME in the tourism sector) and a pragmatic criterion of data availability. The empirical investigation was undertaken in July 2013 during two 3 hour-long meetings with the founder of the firm. The information was gathered through a semi-structured interview and a short survey. Next, a pattern matching of the data collected with the considerations of the two theories was conducted.

Another methodological issue to be decided upon was the question of empirical classification of the chosen firm as an early and rapidly internationalizing firm or a gradually internationalizing one. In fact, even if the literature is quite unanimous when conceptualizing the idea of early and rapidly internationalizing firms (usually following the definition proposed by Oviatt and McDougall, 1994), there is still a lot of heterogeneity when it comes to operationalizing the idea in the empirical research (Madsen, 2013). The most useful dimensions used in the empirical studies are: extent, speed and scope of international development (as suggested by Zahra and George, 2002). However, these dimensions are given various economic values and different thresholds by researchers. Following the methodology proposed by Madsen (2013), in this study the dimensions will be operationalized according to the criteria in Table 2.

**Table 2.** Operationalization of empirical criteria used for determining early and rapidly internationalizing enterprises

<b>Speed</b>	an international activity within 3 years after its foundation
<b>Scope</b>	1 or 2 activities coordinated across borders within 3 years after its foundation (i.e. sourcing, production, sales and marketing, services activities) and 4 foreign countries outside its continent
<b>Extent</b>	25% of sales within 3 years after its foundation or 25% of sourcing within 3 years after its foundation

Source: Madsen (2013).

### **5 Events – the case study**

The firm chosen to verify the applicability of the stage models and born global models to the internationalization processes in the tourism sector was *5 Events* – a small tour operator in Poland operating mainly in a niche market of weddings abroad.

#### **5 Events – the entrepreneur**

*5 Events* was founded in 2009 by Lidia Wandas (LW) who was 27 years old then. At that time she had already accumulated an important education and practical experience in the tourism business, as she had obtained an MBA in Tourism Management from Jagiellonian University in Cracow, had effectuated a few internships and had worked for some Polish tour operators (as well in Poland as a product specialist, and abroad as a resort representative in Greece or a travel courier). It must be also mentioned that LW grew up in an entrepreneurial family, and her mother works in the MICE industry. In these settings it had always been clear for LW that she was going to work in a tourism business. She is a hard-working person, striving for perfection, evidently entrepreneurial but also very risk averse (according to her own judgment). Her interpersonal skills are very well developed and she is good at starting and sustaining personal relationships as well as at business negotiations. Her business ambition is to fortify the position of her firm *5 Events* as a leader in the actual market by means of a high quality offer.

#### **5 Events – the business**

*5 Events* is a leading Polish tour operator specialized in weddings abroad. The firm offer is directed mainly to Polish clients wishing to get married in a foreign destination and usually includes formalities related to the ceremony (demanded by a registry office or a church), organization of the ceremony itself (an official part and a reception), as well as transport and accommodation - for the bride and groom and their guests. *5 Events* also offers romantic tours and

package holidays. The main wedding destinations are Greece, Italy, Canary Islands, Croatia, Indonesia, Thailand, Dominican Republic. Besides, the firm arranges weddings in Poland for foreigners (e.g. in a salt-mine).

This microenterprise is run mainly by the founder herself with one full time employee, and helped recently by a trainee. Naturally, the firm uses a lot of outsourcing at home and in the destinations. Moreover, it draws heavily on products (accommodation and transport) prepared by other tour operators (acting in fact as a travel agency in this case).

Actually, in 2009 the business started as a typical travel agency, offering products of three big tours operators, with a rented office in the center of Cracow. The beginnings were difficult, as there are plenty of other travel agencies selling the same products and the competition is fierce. The founder was aware of the need of an offer differentiation and bet on weddings abroad. This way, in 2010 first weddings were organized and progressively the business model has been modified. Today agency sales still represent more than a half of the turnover, but in quasi totality they are part of wedding packages. As the number of individual transactions is smaller than in a standard travel agency, the rental of the costly office has been abandoned, and the contact takes place through Internet, phone, and in cafes. Clients come from all over the country, and often the founder travels to meet them personally in their locations, which also constitutes a part of a marketing strategy. Today the business is in a very good financial condition, there has been an impressive rise in the turnover, the offer is being expanded, and new markets are being considered.

The expansion of the firm is facilitated by a recent and important growth of this niche market. In Poland, there are four key players in this market, all of them are small businesses (*5 Events* being one of them). Their offer is rich in destinations, partly in a direct competition. Yet, in some cases the companies cooperate acting as agents for chosen products of others. There is also some competition coming from the destinations (by companies or individual entrepreneurs) offering weddings in a given location. As the entry barriers into the market are not high, there is a probability of new players (e.g. big Polish tour operators including the product into their offer, or foreign agencies specialized in the product entering the Polish market through Internet sales). Hence, *5 Events* is in need of a further offer development to fortify its actual reputation and market position.

### ***5 Events* – the internationalization process**

In 2009, the business started as a travel agency, which (even if it may be classified as indirect imports), was hardly an international activity, as it required contacts only with Polish clients and Polish suppliers. Things changed

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radically in 2010, when the firm entered the market of weddings abroad. This activity requires a direct contact with foreign partners - mainly suppliers of services: public servants (or priests) engaged in weddings ceremonies, owners of wedding spaces, organizers of wedding receptions. It also involves frequent travels to choose the suppliers and to survey and coordinate the ceremonies.

The first wedding took place in Tenerife (Spain) in 2010 and was induced by a demand from an acquainted couple. Its success gave courage to engage more into the activity and an official offer was prepared for the season 2011 including Tenerife (Spain), Santorini and Crete. The Greek destinations were chosen while LW had worked there as a resort representative.

Next offers were a result of three factors: clients' demand, formal possibilities (as in many destinations the weddings of non residents are not permitted), and, last but not least, possibilities to outsource some of the organizational requirements to consultants residing in the destinations. The latter has been necessary, as the number of destinations and clients grew, and the entrepreneur could not physically be present at each one personally (which was the case at the beginning). Today *5 Events* collaborates with six consultants in destinations, but LW still attends personally ceremonies in at least one destination, and travels a lot to arrange new offers. Few are the countries where an offer may be prepared without a local presence of the firm's representative - often formal procedures are quite complicated, and a direct presence is essential to manage the contact with officials responsible for the procedures and the ceremony itself. In this perspective, the main entry barrier into this activity is the know-how of the procedures and good contacts with the local officials. It has to be secured either by LW herself, or by her representative. Since a wedding is naturally an event of an exceptional importance to clients, and as LW attaches great importance to the quality of the services offered, no room for an imperfection and improvisation is left, and the representatives and suppliers must be trustworthy. Thus, the pace and direction of the offer expansion in the segment of weddings abroad (and thus of internationalization of the business) was determined also by the availability of the right local consultants. In the case of church weddings, sometimes a presence of Polish speaking priest is indispensable. In some destinations LW has drawn on her earlier personal and professional relations, in some cases she has got in touch with the right people during workshops organized for Polish travel agencies, and in others the contact has been established through the intermediary of her direct current business relationships.

Arranging the wedding offer in consecutive destinations, LW has been developing her business network and exploring the foreign locations.

Consequently, in 2011 she was able to offer her first own package holidays in Santorini (Greece).

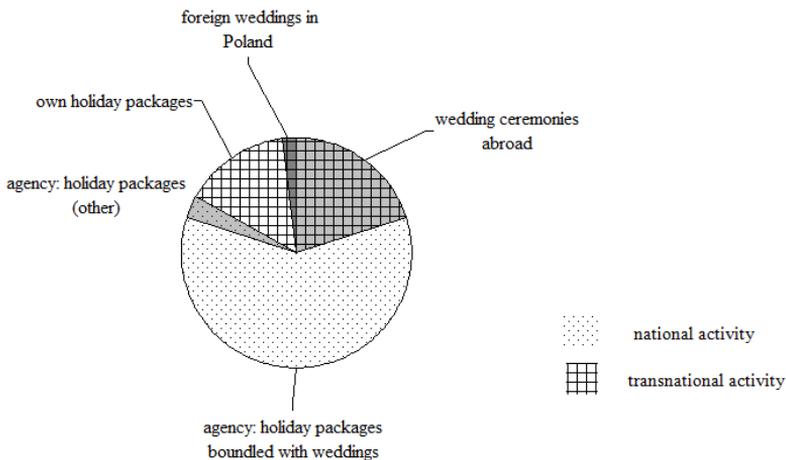
In the meantime, the firm has also built its offer of weddings in Poland for foreign couples and presented it in the Internet. Already in 2011, the first couple from Sweden got married in the Salt Mine in Wieliczka.

The contact with foreign clients and the know how of the foreign localities have inspired the founder to construct an offer for weddings in Rhodes (Greece) for other clients than from Poland. Currently, as of 2013, the website in English is under construction and will be ready ahead of the next wedding season. In fact, weddings abroad are quite popular among the Brits. Other products in preparation are wedding packages for Poles in Kenya and Tanzania and ideas of a few others (e.g. in United Arab Emirates) are waiting in line.

Plainly, *5 Events* started its transnational activity through an inward internationalization. Also today, the firm's international involvement means mainly resource seeking (searching for new destinations to market). Still, the inward internationalization is parallel to a slowly developing export performance (weddings for foreigners in Poland). Moreover, the firm prepares its offer of weddings abroad for foreigners, which means a greater engagement also as a market seeker and a greater outward orientation. In this case, the inward rapid internationalization is leading to the gradual outward internationalization. Clearly, *5 Events*, even if already very engaged in the transnational activities, has much room for further internationalization and has already started to advance on this path. In the case of the firm, the different international activities reinforce themselves collaborating on Fletcher's model (Fletcher, 2001).

### **5 Events – the empirical type of internationalization**

Three years after its founding, in 2012, *5 Events* was engaged directly in trans-border operations when organizing weddings ceremonies abroad, own package holidays abroad, and foreign weddings in Poland. The first two categories are of direct import nature, the last one is exports of services. The three activities made almost 40% of the total turnover in 2013 (Figure 2). However, due to the differences in margins, it equaled roughly 60% of value added of the firm.



**Figure 2.** 5 Events - turnover by activity in 2012, rough estimations (percentage share)

Source: 5 Events.

Clearly, at the moment, the firm was mainly sourcing abroad (approximately 35% of its sales), in 7 principal markets.

Taking into account the foreign sales of weddings in Poland to foreigners, we could classify the *5 Events* as a 'born global firm', while neglecting this activity (as it generated only 3% sales in 2012) would make the firm a 'born international sourcer' according to the literature on born globals and Madsen's classification (Madsen, 2013). Intuitively the latter categorization suits the actual situation of the firm in 2012 better. Simultaneously, the firm's presence through the sourcing in at least 7 markets (of which 3 are in other continents) makes it fall into the category 'import start-up' according to the literature on international new ventures and Madsen's classification (Madsen, 2013).

Whatever exact subcategory classification, there is no doubt, that *5 Events* fulfils the criteria mostly used in the empirical research to be considered as an early and rapidly internationalizing firm. Thus, one would expect that its internationalization process matches the attributes of ERIF theories presented earlier in this paper.

### **5 Events – the pattern matching with the 2 main theories of internationalization**

The theoretical replication consists on examination of key differences and similarities of a given case with the theory considerations. In this research,

the goal is to check to what extent 5 *Events* internationalization is in line with standard considerations of ERIF theories. **TABLE 2** presents 5 *Events* internationalization antecedents and evaluate them on the 1-5 rating scale, where 1 is a typical gradually internationalizing firm (GIF) and 5 is a typical early and rapidly internationalizing firm (ERIF).

**Table 2.** Pattern matching analysis of 5 Events

Attributes and their evaluation	5 Events										
<b>Founder's (and/or founding team's) characteristics</b>											
Managerial vision	<p>At the very inception in 2009 there were no immediate plans for own transnational activity, as the firm started as a typical travel agency. However, the entrepreneur realized very soon the need for the product differentiation in order to survive the fierce competition in the market. Since 2010 the direct trans-border activity has been the principal driver for the company's development.</p>										
<table border="1" style="width: 100%; text-align: center;"> <tr> <td>1</td><td>2</td><td>3</td><td>4</td><td>5</td> </tr> <tr> <td>GIF</td><td></td><td></td><td></td><td>ERIF</td> </tr> </table>	1	2	3	4	5	GIF				ERIF	
1	2	3	4	5							
GIF				ERIF							
Prior international experience	<p>LW had had an important earlier international experience, including the experience in the tourism sector. Her previous internships and jobs gave her not only knowledge about some destinations but also some valuable relationships (even today an important part of the business are weddings in Greece, where she had worked as a resort representative). LW had also traveled abroad a lot as an excursion courier. She speaks English and some Greek.</p>										
<table border="1" style="width: 100%; text-align: center;"> <tr> <td>1</td><td>2</td><td>3</td><td>4</td><td>5</td> </tr> <tr> <td>GIF</td><td></td><td></td><td></td><td>ERIF</td> </tr> </table>	1	2	3	4	5	GIF				ERIF	
1	2	3	4	5							
GIF				ERIF							
Managerial commitment	<p>Till 2013 the whole business was managed by LW herself (and the consultants in the destinations). Since 2013 and employment of 1 employee and 1 trainee, LW has focused on relationships with clients and offer development (new destinations for weddings, strengthening relationships with foreign suppliers, marketing products to foreign clients).</p>										
<table border="1" style="width: 100%; text-align: center;"> <tr> <td>1</td><td>2</td><td>3</td><td>4</td><td>5</td> </tr> <tr> <td>GIF</td><td></td><td></td><td></td><td>ERIF</td> </tr> </table>	1	2	3	4	5	GIF				ERIF	
1	2	3	4	5							
GIF				ERIF							
Networking	<p>The personal and business relationships have been one of key factors determining the offer. Or, in some destinations right contacts with local officials, Polish speaking priests, trustworthy consultants are of a primordial importance. Still, in some other locations, weddings may be arranged without any previous personal or business relationships. When searching for partners WL uses mainly her personal and informal business network. Nevertheless, some new potentially interesting contacts have been established also through participation in official workshops for tour operators. Even if LW finds herself averagely active in initiating the new relationships, her business network has grown by 300% since 2009.</p>										
<table border="1" style="width: 100%; text-align: center;"> <tr> <td>1</td><td>2</td><td>3</td><td>4</td><td>5</td> </tr> <tr> <td>GIF</td><td></td><td></td><td></td><td>ERIF</td> </tr> </table>	1	2	3	4	5	GIF				ERIF	
1	2	3	4	5							
GIF				ERIF							

**Organizational capabilities**

Market knowledge and commitment

1	<b>2</b>	3	4	5
GIF				ERIF

Today 5 Events has an important market knowledge about the formalities and procedures of wedding ceremonies in all the destinations available in its offer. The same concerns own package holidays offered in a few destinations. Weeding receptions in some locations, when arranged directly by the firm also require an extensive knowledge of local markets (which is not the case if they are arranged by local agencies). In general, this knowledge has been acquired progressively, while developing the offer (e.g. when at the origin were clients demanding a wedding ceremony in a new destination). Given the plans of further expansion there is a clear need for more market knowledge.

On the other hand, the market commitment is minimal. The firm has no investment abroad (irreversible or reversible). Only expenditure to arrange the offer (sometimes including important travel expenses) and developing the company’s website in English may be classified as sunk costs.

Intangible assets based on knowledge management

1	<b>2</b>	3	4	5
GIF				ERIF

The essential intangible asset propelling the whole activity of 5 Events is the know-how about the wedding procedures in foreign destinations (and key local relationships in some destinations). Still, 5 Events has no monopoly in this area. Moreover, it was the deliberately chosen strategy of firm’s development that has induced accumulation of this asset, and not the other way round.

Value creation sources

1	<b>2</b>	3	4	5
GIF				ERIF

5 Events’ products are not very innovative. There is neither a lot of space for product differentiation. However, 5 Events bases its competitive advantage on high quality offer, exclusive local relationships in some destinations, and excellent relationships with customers. Still, the value creation capabilities are not exceptional.

**Strategic focus**

Extend and scope of international strategy

1	2	3	<b>4</b>	5
GIF				ERIF

The company has very quickly based its strategy on the organization of weddings abroad in a growing number of destinations. This resource seeking in foreign markets is clearly a highly proactive international strategy. Moreover, the choice of destinations has been mainly driven by clients demand, formal possibilities, network relationships and not by the psychic distance (except for Greece, which has been chosen also for LW’s prior experience). Still, the founder admits that all past offer developments are a valuable learning experience and facilitate a further expansion (new destinations, new clients). On the other hand, due to resources limitations, other internationalization projects (weddings for foreigners in Poland and planned weddings for foreigners abroad) are given secondary strategic priority.

Selection, orientation, and relationships with customers and suppliers

1	2	3	4	5
GIF				ERIF

5 Events operates in a niche market, with a broad and spread customer group (in the case of its main activity of weddings abroad for Poles). The customers usually look for a high quality product, price being of lesser importance. Hence LW's great effort to supply a perfect customer service as well as a premium and unique offer. The latter requires an original and careful choice of foreign suppliers and constantly propels to new foreign markets research. In many cases, the research is done by LW herself in order to minimize the risk. Still, this doesn't exclude using trustworthy intermediaries (e.g. local agencies). Moreover, the bulk of 5 Events turnover comes from the agency sales of package holidays accompanying the wedding ceremonies arranged by 5 Events.

Strategic flexibility

1	2	3	4	5
GIF				ERIF

The firm's flexibility to adapt to new clients demands and changing external conditions is high, as the market commitment is relatively very low. LW has also demonstrated capabilities to seize opportunities and to manage a structural change (e.g. using weddings abroad to boost the agency sales of packages holidays, transforming into Internet tour operator, actively searching for new business contacts, hiring new collaborators, expanding its offer for international clients).

**External environment**

Perceived external barriers

1	2	3	4	5
GIF				ERIF

External barriers to internationalization of 5 Events perceived by LW are mainly a complexity of weddings formalities and a lack of right local partners in many destinations (and to a much lesser degree intercultural differences). On the other hand, the competition in the Polish market of weddings abroad is not perceived as an impediment (in contrast to the competition pressure in England in perspective of 5 Events' projects of entering this market). Surprisingly, LW finds more challenges to running a business in Poland in general than to her international activities. Still, she admits that this relative courage is also a result of her accumulated experience.

Perceived external incentives

1	2	3	4	5
GIF				ERIF

In the case of 5 Events the strongest incentive to internationalization has been the strong competition in the travel agency market in Cracow. It has forced LW to search for a new strategy and made her look for resources directly in the foreign markets. The firm has not used any public support for its activity (neither in general, nor for the internationalization). Even if there are many forms of such support available for SMEs in Poland, LW finds them too complicated and time consuming. The industry of tour operators in general, and weddings abroad in particular are highly internationalized. The specialization of 5 Events in a niche market requires a wide-ranging offer and hence propels a further internationalization.

Evidently, concerning the founder's characteristics, 5 Events matches the standard pattern of ERIF very close. One year after the founding the entrepreneur shifted the business strategy to sourcing in foreign markets. It was relatively easy given the founder's impressive prior international experience. It has also turned out to be successful, while LW has devoted all her energy and resources to this goal. LW has also used and built up her business network, which in many cases was essential to enter new markets.

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Regarding the organizational capabilities, the picture is quite different and *5 Events* does not present typical features of an ERIF - it has no great commitment to the foreign markets (neither current nor planned), and no exceptional intangible monopolistic assets assuring high value creation capabilities. The unique source of monopolistic advantage are high quality client service, some local relationships, and know-how about foreign markets (wedding formalities). The latter has been accumulated progressively when entering new destinations. All of this is more in line with stage models than ERIF. This pattern seems to result largely from the specificities of this niche-market.

On the other hand, the attributes of the strategic focus point to the ERIF model of internationalization. *5 Events* has proven a highly proactive and flexible attitude in its hitherto internationalization. And even if the firm enters into new foreign markets progressively, the psychic distance or gradual process of learning through experience are not important issues. The factors slowing down the internationalization in this case are clearly limited human resources and a very careful choice of foreign suppliers and intermediaries in order to minimize the risk and assure a high quality offer.

The attributes of external environment indicate rather an ERIF model of internationalization as LW perceives hardly any major obstacles to her further internationalization plans. However, the issue of external antecedents is quite specific in the case of *5 Events*. Or, when LW changed the cap and bet on weddings abroad to boost her agency sales of packages holidays, she entered a highly internationalized niche market. This is a powerful factor pushing towards seeking resources in new markets. On the other hand, there are no such obvious forces when considering *5 Events* other transnational projects (weddings in Poland for foreigners, planned weddings abroad for foreigners). While the current internationalization is mainly strategy driven (perfectly in line with ERIF model), the probable future internationalization pattern is not predetermined by the market.

Generally, the attributes in the case of *5 Events* point to ERIF internationalization pattern, which is in concordance with the empirical classification. In fact, the company case fits very well the original definition of INV proposed by Oviat and McDougall (1994, p.49): *“a business organization that, from inception, seeks to derive significant advantage from the use of resources and the sale of outputs in multiple countries”*.

On the whole, the general framework of international patterns differentiation seems to suit *5 Events* quite well, with the notable exception of organizational capabilities. This category of attributes clearly requires an important adaptation to the specificities of the industry. To the lesser extent

also external environment attributes could be more tailored to the business characteristics.

## **Conclusion**

For many years firms internationalized mainly incrementally, gradually learning from foreign markets and foreign networks. The researchers have thus proposed stage model theories. Yet, when the economic globalization accelerated in the 1980s, a new phenomenon of early and rapidly internationalizing enterprises was observed and new models to explain this internationalization pattern proposed. Thanks to theoretical and empirical advances in the field, today a lot is already known about antecedents and process of both kinds of SME internationalization. However, the research has been focused mainly on outward internationalization and more in manufacturing industry than in services (and is almost non-existent in the tourism industry). Thus, the paper has undertaken an exploratory research to verify to what extent the common framework of analysis may explain an internationalization path of SMEs in the tourism sector. Consequently, the internationalization process and its antecedents in a case of a small tour operator operating in a niche market of weddings abroad have been studied.

Concerning the internationalization antecedents of the sample business, the pattern matching largely confirmed the empirical classification indicating the general appropriateness of the common framework of differentiation between rapidly and gradually internationalizing SMEs in the case of a tour operator. However, it has also shown the need for an important industry adaptation in the case of attributes concerning organization capabilities, and (to a lesser extent) external environment.

In terms of the internationalization process, the research has confirmed the approach of Fletcher (2001), as different forms of internationalization are interlinked, parallel and reinforcing each other. In particular, an early and rapid internationalization through imports may lead to a gradual internationalization through exports. The former may result from a proactive attitude, be strategy driven, and implied by characteristics of the market and product (well in line with models of ERIF). The latter, however, may result from a more passive attitude, a kind of letting the windows of opportunity open, without committing many resources (more in line with models of gradually and slowly internationalizing firms).

Therefore, the main implications of this study for further research are twofold - not only there is a need to adapt the general framework to the industry features (in particular in terms of organization capabilities) but

such a further research should also take into account the heterogeneity of international activities (in terms of their antecedents and process). Even if a firm is born global, its further internationalization may well be incremental in nature.

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### **Abstrakt (in Polish)**

Dzisiaj wiele już wiadomo o wzorcach internacjonalizacji małych i średnich przedsiębiorstw (MSP). Jednak dotychczasowe badania skupiały się głównie na internacjonalizacji poprzez eksport oraz dotyczyły bardziej przemysłu niż sektora usług (i w bardzo niskim stopniu internacjonalizacji firm turystycznych). Dlatego też niniejszy artykuł podejmuje wstępne badania w celu zweryfikowania, w jakim stopniu ogólnie stosowane ramy analizy są przydatne w zrozumieniu ścieżki internacjonalizacji MSP sektora turystycznego. W tym celu dokonane zostaje studium przypadku małego tour operatora w Polsce działającego w niszowym segmencie ślubów za granicą. Badanie zestawia charakterystykę internacjonalizacji firmy z ustaleniami dwóch głównych ujęć teoretycznych internacjonalizacji MSP: modelami stopniowej internacjonalizacji (tzw. modele behawioralne) oraz modelami wczesnej i szybkiej internacjonalizacji (firmy zwane „urodzonymi globalistami”).

Główne wnioski badania są dwojakie. Po pierwsze, nawet, jeśli powszechnie stosowane ramy analizy całkiem dobrze służą analizie przypadku małego tour operatora, to jednak istnieje wyraźna potrzeba adaptacji tych ram do specyfiki sektora (zwłaszcza w przypadku zdolności organizacyjnych). Po drugie, dalsze badania powinny uwzględnić także niejednorodność międzynarodowych działań firmy (w zakresie ich czynników sprawczych jak i przebiegu). Nawet, jeśli firma rodzi się globalistą, jej dalsza internacjonalizacja może jednak przebiegać stopniowo. W szczególności, wczesna i szybka internacjonalizacja poprzez import może prowadzić do stopniowej, etapowej internacjonalizacji przez eksport. Ten pierwszy rodzaj (i etap) działalności międzynarodowej firmy może wynikać z aktywnej postawy wobec internacjonalizacji, być istotą

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*strategii firmy i wiązać się z charakterystyką rynku i produktu (zgodnie z modelami wczesnej i szybkiej internacjonalizacji). Natomiast drugi rodzaj (i etap) działalności międzynarodowej może wynikać z bardziej biernej postawy i wiązać się z minimalnym zaangażowaniem zasobów (zgodnie z modelami internacjonalizacji stopniowej i powolnej).*

**Słowa kluczowe:** *MSP, internacjonalizacja, modele etapowe internacjonalizacji, modele behawioralne, urodzeni globaliści, born globals, przedsiębiorczość międzynarodowa, sektor turystyczny, tour operator, rynek niszowy.*



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# The Main Burdens of Doing Business Perceived by Family-Owned Hospitality Enterprises in Slovakia

*Ľudmila Šmardová\**, *Ľuboš Elexa\*\**

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## **Abstract**

*The main aim of the article is to identify the main burdens of doing business perceived by Slovak family owned hospitality businesses as well as to assess their view on the prospects for family businesses in Slovakia. The article analyzes primary data gained from an opinion survey conducted by means of a questionnaire in 2013. The business environment perception is evaluated according to the perception of certain external business environment indicators (conditions of doing business) depicted on the basis of the results of the pilot survey conducted in 2009 and the research carried out in 2010/2011. The results allowed us to identify the most discussed topics and burdens of doing business in tourism and hospitality in Slovakia.*

**Keywords:** *family business, hospitality, business environment, business conditions.*

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## **Introduction**

The hospitality businesses provide the basic tourism services. Hence, their activities depend on the degree of the tourism development in a particular country as well as on the country's competitiveness as a tourism destination on the international tourism market. The enterprises have to provide competitive services in terms of both quality and price, which retrospectively influence the country's competitiveness as a final tourist destination. The provision of such services depends on the business conditions established by the state. The role of the state is essential, not only as a warrantor of systematic support, but also as a creator of favorable environment.

Slovakian tourism has not been one of the most profitable sectors of the national economy for a long time and it has declined since the global economic recession took place. The businesses perceive business conditions as much more difficult in the period of a significant decrease of their economic activity.

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The aim of the article is to identify the main burdens of doing business perceived by Slovakian family owned hospitality businesses as well as to assess their view on the prospects for family businesses in Slovakia.

### Literature review

There is much attention devoted to family business theory and practice in foreign literature. In spite of this fact, there is not a single definition of family business which is widely and exclusively applied to every conceivable area, such as to public and policy discussions, to legal regulations, as an eligibility criterion for support services, and to the provision of statistical data and academic research (Mandl, 2008, p. 7). Literature reviews on family business refer to the multitude of definitions. Sharma et al. (1996) and Chua et al. (1999) comprehensively reviewed literature and found 34 definitions. Birley (2001) also argued that in some countries the term family business is not used, nor it is understood (after: Getz, Carlsen and Morrison, 2003, p. 4). In family business analysis carried out by the Austrian Institute for SME Research on behalf of the European Commission, there were 90 different definitions identified in 33 European countries (Mandl, 2008).

Even though all those definitions are heterogeneous, still the specification of family business comes from common interaction of three elements: the family, the business and the ownership. Their intersection influences were illustrated by Tagiuri and Davis (1982) in the Three – Cycle Family Business Model (after: Davis, 2007, p. 5):

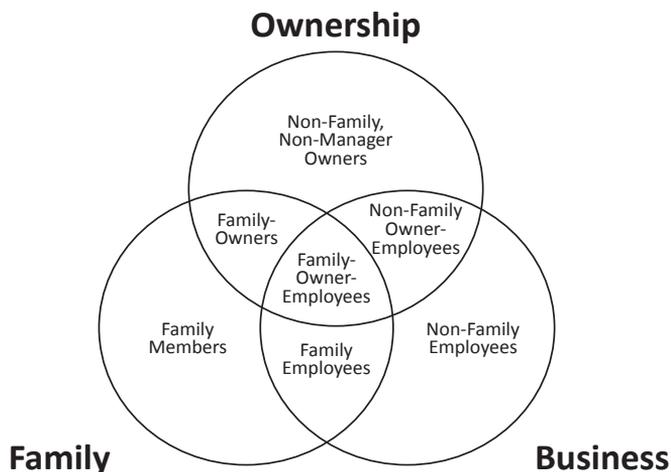


Figure 1. Three-cycle family business model

Source: Davis (2007), p. 5.

The model of Tagiuri and Davis (1982) defines seven categories of people with different interests within environment occupied by family, company and its owners. The importance of relations between family and entrepreneurship is stressed even by Harveston, Davis, and Lyden (1997), who mentioned that family enterprises' uniqueness is based on the fact that they represent a context (or an arena) in which two seemingly disparate social units (i.e., families and businesses) are highly integrated (Harveston et. al, 1997, p. 374).

Family businesses are frequently tied in literature to small companies. We have to point out that apart from family and business elements, ownership is also very important. Ownership creates the third cycle in the family business model. EU expert group for family businesses research specifies that ownership is key to the business life of the firm. It enables a clear distinction to be made between family and non-family businesses. Taking the 'ownership perspective' rather than the 'company size' perspective can help improve understanding of the phenomenon (European Commission, 2009). Ownership, on the other hand, significantly limits overall influence of family in strategic management and strategic decisions.

For the needs of corporate practice, McCabe (2012) recommends adding three more elements to Tagiuri and Davis Three – Cycle Family Business Model (1982) which are "divorce", "real estate" and "partnerships". He developed a new model, as he mentions "21st Century Client Relation Model (CRM) diagram is just beginning. Further additions can and should be made." (McCabe, 2012, p. 3).

Three – cycle family business model is the starting point for all experts examining different aspects of family business as well as trying to define it. Experts in the field use many different criteria to distinguish these businesses, such as percentage of ownership, strategic control, involvement of multiple generations, and the intention for the business to remain in the family (Astrachan and Shanker, 2006, p. 211). Astrachan and Shanker created a range of possible family business definitions from a broad, inclusive definition to a narrow and more exclusive one. The level of inclusiveness depends on the perceived degree of family involvement in the business (2003, p. 211).

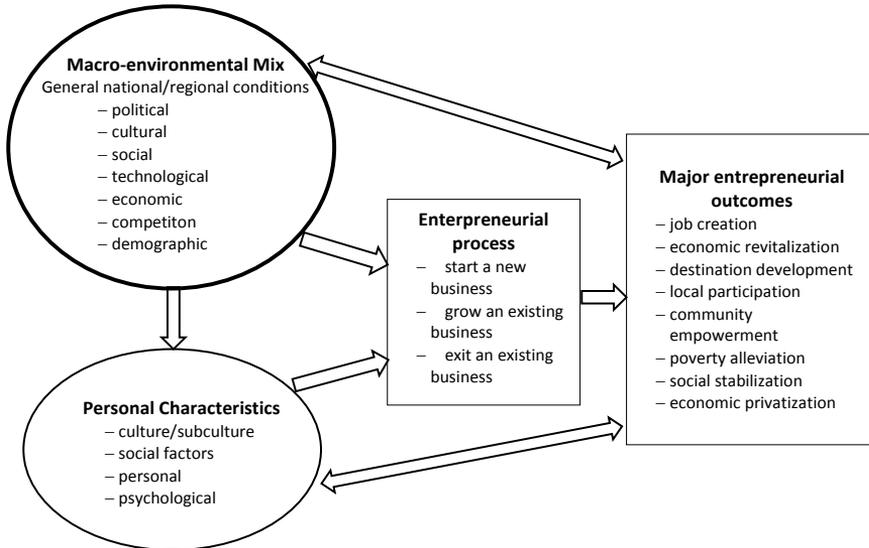
Since this paper is focused on family businesses in Slovakia, which is an EU member country, we consider the definition of EU expert group as the most important one. However, just this one is recommended for all member countries in order to ensure comparability of research results within EU. According to this recommendation a firm, of any size, is a family business, if: (1) The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in

the possession of their spouses, parents, child or children's direct heirs. (2) The majority of decision-making rights are indirect or direct. (3) At least one representative of the family or kin is formally involved in the governance of the firm. (4) Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital (EC, 2009).

Attention is devoted to family businesses because of their huge economic contribution, mainly in the form of added value and employment increase. Several studies have suggested that family enterprises are emerging as the central force driving economies in former socialist or so-called transition countries (Duh and Tominc, 2005; Pistrui et al., 1997; Poutziouris et al., 1997; Vadnjal, 2005, after: Duh, 2012, p. 210).

According to some available studies, the share of family businesses in overall employment equals and even exceeds 70 % (Mandl, 2008). In Austria the share of family businesses in the number of all business entities accounts for more than 80 % and they create 70-75 % of all jobs (Mandl and Obenaus, 2008). Family businesses represent 91 % of all businesses in Finland and 85 % in Spain. Employment created by family businesses reached about 40 % (Family Business International, 2008). According to the analysis of EU expert group for family businesses, the share of family businesses in Slovakia is about 90 %, in Czech Republic 84 %, in Poland up to 75 % and in Hungary about 70 % (Mandl, 2008). The extent of family entrepreneurship in USA is very high and represents between 80 and 90 %, thus creating 62 % jobs (Astrachan and Shanker, 2006). Annual contribution of family businesses to global gross domestic product is between 70 and 90 % (Family Firm Institute Inc., 2013). Another mentioned asset of family entrepreneurship is the fact that they: reinvest profits responsibly preferring equity as opposed to debt financing, act as responsible owners because of their long-term strategy towards stakeholder interests, including employees, customers, shareholders, local communities; transmission of family values with a high sense of social responsibility; special concern for the local or regional base; natural incubators of an entrepreneurial culture, they foster the next generation of European entrepreneurs; stewards of social and economic capital from one generation to the next (EFB, 2013). Tourism as a sector is labor intensive and the success of businesses is derived from the quality of personnel. Getz and Carlsen mentioned that "tourism offers many opportunities for family business, often embodying direct host – guest interaction in the family home or property. They are often vital to customer satisfaction and to destination and community development" (2005, p. 237).

Literature specifies mostly family and its members' motivation to run a business, inner organization structure and structure of management, etc. Chen and Elston (2013) in the study of small restaurant owners emphasized that entrepreneurship literature identifies critical factors of running business not only on the micro-level, or personal level of business, but also on the macro-environment level (Figure 2).



**Figure 2.** Critical factors influencing entrepreneurial behavior

Source: Chen & Elston (2013), p. 296.

Macro-environment forms external conditions for doing business which businesses are not able to affect. Enterprises can only expect impacts of changes in social, economic, environmental and legislative conditions. Special attention to business environment conditions is paid by European Union. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded (Communication, 2008, p. 4) is the first of ten principles of a “Small Business Act” for Europe. There are numerous questionable aspects of business environment in tourism which arise mainly from particularities of this sector. Policy regarding economic development generally favors tourism and hospitality investments, at least in designated areas – typically those peripheral to urban and economic centers. Ironically, the industry is also highly regulated and taxed (Getz et. al, 2004, p. 13). Mendonsa (1983, after: Getz and Carlsen, 2000, p. 549) discovered

that in Portugal only family tourism businesses with capital could benefit, but others were unable to do so.

We consider just external conditions for doing business to be crucial in business development for this moment. Companies are not able to influence them and their changes create opportunities or threats for businesses. Family businesses in market and mixed economies prevail in number and share. Some of the studies point at the fact that family businesses participate mainly in labor intensive sectors, including tourism (Mandl, 2008). There is not enough attention devoted to external conditions for doing business and those influence even the inner structure and personal ties in family business. For example, family members' employment is influenced by labor law and the size of social contribution. The size of tax burden influences the family income and consequently its motivation to run a business. Family entrepreneurship is an exceptionally important aspect of tourism development. It contributes to better quality of services and destinations development. Afterwards, frequent changes in external environment, which negatively affect approach to family entrepreneurship, may indirectly limit development of tourism.

### **Research methods**

The main aim of the article is to identify the main burdens of doing business perceived by Slovakian family owned hospitality businesses as well as to assess their view on the prospects of family businesses in Slovakia.

Slovakian hospitality sector has not been one of the most profitable sectors of national economy for a long time and it has declined since 2008 when the economic recession started. The research connects two important aspects of tourism development in Slovakia:

- importance of family businesses providing high quality hospitality services, which are more competitive and make Slovakia more attractive as tourist destination; those businesses are more responsible and stable in doing business and contribute to economic growth; and
- conditions for doing business created by the state, which significantly affect economic activity. Businesses are not able to influence those conditions. Identification of main burdens in doing business helps to identify some of the reasons of slow economic development of hospitality sector perceived by family businesses in Slovakia. The research revolves around the problem of whether providing hospitality services is perceived by family businesses to be prospective in current business environment conditions. Creating favorable business environment is important not only in the time of crisis. But in times of economic fall businesses are more sensitive and expect effective regulations which support their economic activity.

The article presents certain results of business environment evaluation in Slovakia, based on the perception of certain business environment indicators. The research is based on the primary data gained from an opinion survey conducted by means of a questionnaire in 2013. It focused on the identification of the main burdens in doing business in Slovakia as well as their prospects for doing business in certain business environment. The survey was mainly focused on the external conditions.

The business environment perception is evaluated according to the perception of certain indicators' categories (Table 1).

**Table 1.** Criteria of the business environment's evaluation

Category of doing business indicators	Criteria
Meeting legal and administrative conditions	Trade Office
	Tax Office
	Social Insurance Agency
	Health Insurance Agency
	Labour Code
	Regional public health Authority
Taxes	Income tax
	Value added tax (VAT)
	Vehicle tax
	Immovable property tax
	Other local taxes (fees)
	Excise taxes
Tax system	Total tax rate
	Administrative severity
	Time requirements
Social payments system	Total rate
	Administrative severity
	Time requirements
Meeting all legal conditions	Administrative severity
Tourism development	Efficiency of DMO activities

Criteria (indicators) were depicted based on the results of the pilot research carried out in 2009 and the research conducted in 2010/2011 which identified the most discussed topics and burdens in doing business in tourism in Slovakia. Business entities are very sensitive to changes of business conditions in Slovakia, especially since 2009 when the economic downturn in Slovak tourism started. Since such topic is very broad, we will not focus on the processes connected with starting up and terminating business activity, but on perception of conditions considered vital when running a business. Criteria are completed by changes of business environment in 2013. The

research was conducted among enterprises providing hospitality services in Slovakia. According to the NACE rev. 2 classifications they are classified in the section I - Accommodation and food service activities. We excluded entities providing services in category I55.90 - Other accommodation (longer term accommodation for students, workers and similar individuals), which we do not consider to be provided in tourism.

We processed the collected primary data using mathematical-statistical methods. Qualitative variables of research are selected conditions of doing business – criteria of the business environment evaluation. We mainly use the methods of descriptive statistics - absolute and relative frequencies expressed as percentage, to identify the burdens of doing business perceived by the majority (more than 50 %) of observed family business entities.

In addition to the evaluation of analyzed business conditions, we investigate if the family businesses perceive doing business in current conditions to be prospective.

We formulated the hypothesis based on the results of preliminary research and secondary data showing slow economic development of hospitality sector in Slovakia. We expect that the majority of Slovakian family businesses providing hospitality services perceive doing business in hospitality as non-prospective if the current conditions in Slovakia remain the same. The hypothesis will be verified processing data by basic statistical method of descriptive statistics using relative frequencies expressed in percentage. We use the theoretical methods of abstraction, induction and comparison to process the results of the analyses into consequences at the end.

The sample was created by 200 family enterprises. Stemming from EU expert group estimation, according to which up to 95 % of all business entities are family businesses (Mandl, 2008), we consider our research to be representative. Currently, there are no statistical data about family business numbers in hospitality sector in Slovakia and its characteristics. Based on the composition of statistical population (all hospitality businesses in tourism) in Slovakia, research sample is representative as to the size and legal form (Table 2, Table 3).

**Table 2.** Slovakian tourism hospitality businesses in 2013 (based on Nace rev. 2 classification Section I excluding category 55.9) according to the business size

Business size (number of employees)	Micro (0-9)	Small (10 -49)	Medium (50-249)	Large (above 249)	Total
Absolute number	17303	990	70	4	18367
Percentage share of businesses	94.21	5.39	0.38	0.02	100.00

**Source:** Own processing based on Statistical Office of Slovak Republic (2013) and survey results (2013).

There are approximately 99 % of tourism hospitality businesses in the category of micro and small businesses in Slovakia. In this categories there were also 99 % of surveyed businesses (180 entities are micro-businesses and 18 businesses are small). 2 surveyed subjects (1 %) were medium size.

**Table 3.** Slovakian tourism hospitality businesses in 2013 (based on Nace rev. 2 classification Section I excluding category 55.9) according to the legal form

Legal form of business	sole proprietor	Plc.	other	total
Absolute number of businesses	12390	5651	326	18367
Percentage share of businesses	67.46	30.77	1.77	100.00

**Source:** Own processing based on Statistical Office of Slovak Republic (2013) and survey results (2013).

Most hospitality businesses in tourism are sole-proprietors 67.46 %. The second most common legal form is private limited company with almost 31 % share. The research sample covered 114 (57 %) sole-proprietors and 83 (41.5 %) private limited companies. The rest – 2 subjects (1.5 %) were in the legal form of stock company.

We used also secondary data of the turnover and the employment to identify the development of economic activity in hospitality sector in Slovakia. The data were gained from the statistical information published by the national statistical bureau. We are using the mathematical-statistical methods of processing, namely basis and chain indexes lined up in time series since 2006 until 2012.

### **Analysis of family businesses’ burdens and perspective in hospitality sector**

All surveyed companies are considered to be family businesses according to definition of the European Union. In most interviewed businesses

management is still in first family generation (77 %). The second generation took over in case of 22 %. Just 1 % of all examined subjects were run by third generations. These results are due to historical aspects and shorter tradition in running a business in Slovakia, which has been possible just since 1989. In these family businesses we can find spouses as the most frequent employees – 46.5 % and their direct descendants (40%). Most companies (54.5 %) employ family members belonging to two generations. 8.5 % of family members worked in lower management (shift leaders), 31 % in middle management (department managers), 17.5 % in top management (directors). But it is common for family members employed in family businesses not to be involved in management. This is the case of 43 % family businesses. Due to the objective of our study we will not focus on family business structure in detail anymore.

We consider the analysis of conditions for doing business to be very important, mainly because of rapid decline of economic activity of Slovakian hospitality businesses since 2008.

Slovakian catering and hospitality businesses reached the highest turnover in 2008. It was 22.8 % lower in 2009 compared to previous year. This was a critical fall for doing business in Slovakia because the revenues had slowly been rising till 2008 (Table 4.).

**Table 4.** Turnover of the hospitality businesses in Slovakia in 2006-2012

Year	Turnover (in thousands €)	Annual Change	Chain index of turnover	Basis index of turnover
2006	1 379 008	-	100,0	100.0
2007	1 433 778	54 770	104,0	104.0
2008	1 518 700	84 922	105,9	110.1
2009	1 172 600	- 346 100	77,2	85.0
2010	1 092 800	-79 800	93,2	79.3
2011	1 105 000	12 200	101,1	80.1
2012	1 134 200	29 200	102,6	82.3

**Source:** Processing based on the data of the Statistical Office of Slovak Republic (2013).

The turnover had fallen by additional 6.8 % in 2010 compared to 2009. This economic indicator had decreased to about 28 % during the economic fall (during 2009 and 2010) even though the rate of this decline slowed down in 2010. We can see that even though the turnover has slowly increased since 2011, top level was nearly 18 % lower in 2012 compared to 2006 and about 25 % lower compared to the most successful year 2008.

Newly created jobs in catering and hospitality sector have been decreasing in Slovak Republic since 2008 (Table 5.).

**Table 5.** Employment in hospitality businesses in Slovakia in 2006-2012

Year	Employment (in thousands of jobs)		Employment in observed sector			
	State	Observed sector	annual change in number of jobs	chain index	basis index	% share on state employment
2006	1330.5	48.2	-	100.0	100.0	3.62
2007	1384.6	50.9	2702	105.6	105.6	3.68
2008	1425.8	50.0	-887	98.3	103.8	3.51
2009	1282.1	41.2	-8775	82.5	85.6	3.22
2010	1229.9	38.2	-3024	92.7	79.3	3.11
2011	1257.4	38.1	-126	99.7	79.0	3.03
2012	1255.2	38.5	366	100.1	79.8	3.06

**Source:** Processing based on the data of the Statistical Office of Slovak Republic (2013).

Employment decreased by 17.5 % in 2009 - the year of the most significant turnover fall - compared to the previous year. The fall continued during 2010 when the employment decreased by additional 7.3 % compared to 2009. There was about 25 % decrease during the economic downturn since 2007 to 2011, even though the employment fall has slowed down in 2010. The observed sector share in the national employment was about 3.68 % in the year of the highest employment (2007) and it fell to 3.03 % in 2011.

### **Perception of administrative burden in running a business**

In our research we examined how family businesses evaluate overall administrative burden they are suffering from. 90.5 % of family businesses in hospitality sector consider the operation of hospitality business to be administratively demanding and conversely, fewer than 10 % think that business processes are not demanding. We analyzed how businesses evaluate necessary administration processes they are supposed to handle with the most important authorities in business sector. Among the most important authorities we rank tax office, trade office, regional public health authority, social insurance agency, health insurance agency and we also included there compliance with labor code (Table 6).

**Table 6.** Subjective perception of administrative burden

Perception of administrative burden	Absolute numerous	Percentage share
Trade Office		
Low	24	12,0
Average	108	54,0
High	68	34,0
Tax Office		
Low	5	2,5
Average	62	31,0
High	133	66,5
Social insurance agency		
Low	7	3,5
Average	115	57,5
High	78	39,0
Health insurance agency		
Low	11	5,5
Average	119	59,5
High	70	35,0
Regional public health authority		
Low	7	3,5
Average	98	49,0
High	95	47,5
Labor Code and Labor Law		
Low	5	2,5
Average	81	40,5
High	114	57,0

As the most negative perception of administrative burden came the answers of family businesses in the field of taxation. 66.5 % of family businesses feel that the most arduous task is to deal with tax offices. 57 % of businesses thought that even labor code and labor law agenda is demanding. This negative evaluation is probably due to significant changes in legislation since 2013 which influenced primarily the business of small companies. Changes in this area are very frequent and this can also lead to overall negative perception. At the same time they caused huge administrative burden and through this they negatively affected day-to-day business activities.

### Perception of particular taxes

Slovakian tax system consists of direct and indirect taxes. Direct taxes are imposed on profit of individuals (personal income tax, corporate income tax), or on property, such as local taxes and community charges, while indirect taxes are imposed on consumption in general. For our research we divided Slovakian taxes in six groups as followed: profit tax (including income tax of

self-employed person), Value Added Tax (VAT), Motor vehicle tax, Immovable property tax, accommodation tax (overnight tax) other communities' taxes (charges) and excise taxes (Table 7). Groups are selected according to results of the pilot research and along the requirements of our research as well as in line with the extensiveness of a specific topic.

**Table 7.** Subjective perception of particular taxes` framework

Perception	Absolute numbers	Percentage share
Profit tax		
Positive	35	17.5
Neutral	101	50.5
Negative	64	32.0
Value Added Tax		
Positive	39	19.5
Neutral	100	50.0
Negative	61	30.5
Motor vehicle tax		
Positive	15	7.5
Neutral	120	60.0
Negative	65	32.5
Immovable property tax		
Positive	11	5.5
Neutral	110	55.0
Negative	79	39.5
Accommodation tax		
Positive	16	8.0
Neutral	102	51.0
Negative	82	41.0
Other community taxes (charges)		
Positive	18	9.0
Neutral	137	68.5
Negative	45	22.5
Excise taxes		
Positive	34	17.0
Neutral	105	52.5
Negative	61	30.5

No evaluation of the observed group of taxes has been unambiguously positive. The reason is that all taxes or groups are perceived by less than one fifth of businesses to be positive. Positive evaluation (on questionnaire explained as perceived to be effective) has not been expected due to the fact that taxes are the most frequently mentioned burden of business environment in every field of national economy in most societies, especially in Slovakia.

The majority of observed businesses accept (perceive as neutral) all analyzed taxes, even if there is a significant share of negative perception.

Hospitality businesses are not entities taxable with VAT, excise taxes or accommodation tax. The subjects are not administratively burdened only with excise taxes. VAT and accommodation tax requires special administration and evidence. The indirect taxes rates` height influences the price of production inputs (excise taxes), which is reflected in business costs and final consumption price (VAT and accommodation tax) of hospitality services. We can consider this to be the main reason of negative subjective perception of indirect taxes.

No particular tax was evaluated negatively (perceived to be ineffective). But the tax system as such is evaluated negatively. The evaluation of tax system in general is based on the following three criteria: total tax rate, administrative severity, time severity based on legislative changes and procedures required (Table 8). The majority of family businesses perceived all aspects of tax system to be negative.

**Table 8.** Subjective perception of tax system

Perception	Absolute numbers	Percentage share
Total tax rate		
Low	0	0.0
Average	44	22.0
High	156	78.0
Administrative severity		
Low	1	0.5
Average	77	38.5
High	122	61.0
Time severity sequent to legislation and procedures required		
Low	2	1.0
Average	74	37.0
High	124	62.0

When analyzing the tax system evaluation it is necessary to mention the uniqueness of Slovakian tax system. There was an extensive tax system and framework reform implemented in Slovakia in 2004. It had introduced a 19 % flat tax (constant marginal tax rate applied on individual and corporate income tax as well as VAT) which clarified the Slovakian tax system. VAT rate has changed in some ways e.g. it has defined the groups of goods allowed to be taxable by lower rate such as pharmaceuticals and some medical goods, books and some “home produced” agricultural goods, since the tax reform implementation. The majority of the goods remained taxed with the basic

tax rate, which increased from 19 % to 20 % in 2011, based on the temporary arrangements of VAT law in charge. This increase of the tax rate was explained as a tool for tax revenues increase and it is valid until the last calendar day of the year when European Statistical Office publishes the data indicating the budget deficit of Slovakian Republic to be lower than 3 % (Act No. 222/2004 Coll. On Value Added Tax as amended by Act No. 490/2010 Coll). Constant marginal tax rate applied on the individual and corporate income tax remained at the level of 19 % till 2012 (Act No. 595/2003 Coll. Income Tax Act). The original unified flat tax rate of 19 % is valid only for incomes of the entrepreneurs acting as natural entities and for natural entities with the annual income of up to 34 402 €. The income of natural entities (including entrepreneurs) exceeding the mentioned amount is taxed with the rate of 23 % since 2013 (Act No. 395/2012 Coll.). Corporate profit tax increases to 23 %. With the system changes we can conclude the end of flat tax in Slovakia. This fact can influence the perception of administrative severity of tax system and can lead to negative business perception of business environment. It is only the beginning of tax rate changes and the impacts will probably be felt after the tax period of 2013 (at the beginning of 2014). We analyzed businesses' perception of flat tax and its changes (Table 9).

**Table 9.** Subjective perception of flat tax and its changes

Perception	Absolute numbers	Percentage share
Flat income tax (19 %) implementation in 2004		
Positive	115	57.5
Neutral	67	33.5
Negative	18	9.0
Flat VAT tax (19 %) implementation in 2004		
Positive	111	55.5
Neutral	70	35.0
Negative	19	9.5
Corporate income tax increase on 23 % since 2013		
Positive	11	5.5
Neutral	61	30.5
Negative	128	64.0
Natural person tax rate differentiation on 23 %, 19 % rate since 2013		
Positive	17	8.5
Neutral	60	30.0
Negative	123	61.5

Flat income tax is perceived to be positive by the majority of entities (57.5 %) as well as flat VAT tax (55.5 %) Negative perception was provided

by just about 9 % of businesses. The flat VAT caused increase of VAT rate of accommodation services (services were imposed the reduced rate of 6 % before 2004). Despite this fact flat VAT rate was evaluated as positive. More than 60 % of businesses perceive the end of flat tax connected with increase of income tax rates as well as administrative severity to be negative. Frequent changes of vital business conditions cause problems especially to small tourism businesses, where all administrative procedures burden the owner, the entrepreneur, who is usually responsible for all administration.

### Perception of social contribution system

After questioning businesses with open-ended questions we found out that they consider social contributions to be the most serious burden (81 % of businesses). This topic is frequently discussed in all industries and sectors, but in labor intensive sectors all negative changes are perceived even more sensitively. We evaluated the social contribution system in an identical way as tax system concentrating on the following three criteria: total rate, administrative severity, time severity (Table 10).

**Table 10.** Subjective perception of social payment system

Perception	Absolute numerous	Percentage share
Total rate		
Low	1	0.5
Average	37	18.5
High	162	81.0
Administrative severity		
Low	4	2.0
Average	86	43.0
High	110	55.0
Time severity sequent to legislation and procedures required		
Low	3	1.5
Average	72	36.0
High	125	62.5

All aspects are evaluated negatively. It might be caused by frequent changes with negative impacts mostly in the area of personal costs increase.

In Slovakia there is practically no legislation specifically oriented on family businesses. Therefore, when employing family members all companies are looking for the most effective available forms. One of them was utilization of a specific legal contract form based on mutual consent. Those contracts for work were not a part of full-time employment and were

meant to ensure occasional jobs or bring specific result. Even it is true that they were supposed to be applied only on seasonal (occasional) activities or irregular work, family businesses used them more frequently because of their lower social contribution. However, since 2013 all those payments went up from 1.05 % up to 48.6 % in case of some employees with regular income. Social contribution in such contracts for work equalized the level of full-time contracts. We are not going deep into details in description, but finally all those legislation changes caused fundamental increase of personnel costs when employing seasonal workers as well as family members who previously could legally work and support family businesses by offering lower labor costs. Seasonal workers are especially important for companies providing services in tourism. Changes in social contributions were negatively perceived by 73.5 % of family businesses, 24.5 % of them had neutral approach and just 2 % positively evaluated the increase of social contributions. 34.5 % of companies were forced to terminate contracts with some of their employees and 23 % of them claimed they experienced significant increase of labor costs. Such extent of legislation changes that were hostile towards business entities may lead to a downturn of economic activities due to unfavorable labor cost changes, and eventually wind down the business. Another possibility may be the increase of shadow economy, illegal employment with an effort to cut down personnel costs to a minimum level.

### **Tourism development**

Tourism is not one of developed sectors of Slovakian economy. On the other hand, it has been enjoying great attention and hospitality businesses are starting to perceive that they are not isolated subjects and for their individual success the whole system should be effective as well. They perceive promotion of tourist destination as an external condition for doing business. At the same time they started to consider activities of destination management organizations (DMO) to be an important part of tourism development. Those activities have been regulated in legislation only since the end of 2011. 78 % of surveyed family businesses are not able to evaluate activities of DMO in destination of their business. Only 6.5 % of them positively evaluate DMO activities. This is attributed to a short history of such organizations in Slovakia. Only 13.5 % of hospitality businesses are voluntary members of DMO.

Broader aspects of destination's development are not considered to be a barrier within external conditions. On the other hand, hospitality businesses still consider other aspects of external environment (which we have previously analyzed) to be more important.

### Prospects of family businesses in hospitality

We have examined two aspects of family businesses prospects among hospitality companies in Slovakia. Those were the prospects of family entrepreneurship as a source of family income and the prospects of entrepreneurship as such when business conditions in the future do not change.

**Table 11.** Perception of prospects in doing business

Perception of prospects in current conditions of	Absolute numbers	Percentage share
Doing business in hospitality		
Prospective	52	26.0
Not able to evaluate the current situation	56	38.0
Non-prospective	92	46.0
Doing family business in hospitality		
Prospective	72	36.0
Not able to evaluate the current situation	38	19.0
Non-prospective	90	45.0

Most of the observed businesses – 46.0 %, perceive doing business in catering and hospitality as non-prospective if the current conditions in Slovakia remain the same. Almost the same perception is shown about doing family business as perspective source of family incomes, 45 % perceive family business as non-prospective in current external conditions. Only almost one third – 26.0 % of them consider the hospitality to be a booming sector and 36 % consider doing business in hospitality to be a prospective source of family incomes in the future if current conditions remain unchanged. Some family businesses are not able to evaluate the current situation and the future of family business in hospitality. Based on this result we are not able to prove the hypothesis that the majority of Slovakian family owned businesses providing hospitality services perceive doing business in hospitality as non-prospective if the current conditions in Slovakia remain the same. Even though there is a significant share of non – prospective perceptions of doing business in future (46 %), this opinion is not shared by the majority (more than 50 %) of observed entities.

### Discussion

The main barriers of doing business are included in the intersection of the legislative, political and economic business environment. They are identified in line with certain category of indicators and negative perception of criteria based on the methodology of the research. Most of the observed indicators were directly indicated as a burden by the enterprises. We evaluated those business environment indicators which are perceived as negative by the

majority of the observed business entities (more than 50 % share of all entities included in the survey) to be the burden of doing business. In case the subject did not evaluate the criterion we understand this approach as not being a burden. We consider the following to be the main burdens of doing business perceived by family hospitality business:

- administrative severity of meeting of all legal conditions perceived by 90.5 % of observed family businesses;
- difficulties connected with tax office agenda, which are negatively perceived by 66.5% of investigated companies and caused by frequent changes in this area;
- tax system. Total rate of taxation is considered to be too high by 78 % of companies involved, while all taxes within tax system were evaluated neutrally and companies accept their necessity. Higher administrative burden within tax system is perceived by 61 % of family businesses, including its time consuming intensity which was declared by 62 % of businesses (also they are caused by frequent changes in legislation, mainly when speaking about income taxes);
- negatively appraised labor legislation and its agenda, given by 57 % of businesses;
- high social contribution, which was stated by 81 % of subjects involved. We consider this is the result of changes valid since 2013, which made administration burden to be higher. As a barrier it is understood in 55 % of family businesses and as time consuming it was answered in 62,5 % of acquired questionnaires.

Based on the identification of the main barriers of family businesses' development in hospitality sector in Slovakia we can state that attention given to external conditions of doing business in Slovakia is very important nowadays. Family businesses are considerably numerous when comparing them with all business entities, they are significantly contributing to employment, creation of economic and social values. Situation in tourism in Slovakia is quite serious. Several authors are engaged in this topic, dealing with the current system crisis in tourism (Malachovský, 2012), attractiveness of Slovakia for foreign visitors (Pompurová, 2013), as well as necessary increase of quality in provided services (Kučerová, Marčeková and Nedelová, 2010), or planning of tourism development (Kučerová and Makovník, 2009). Special attention is often paid to general external business environment conditions in Slovakia (Klementová, 2008; Hvolková, 2013). But also examination of external conditions for doing business, especially in tourism and creation of favorable business environment, should become one of the priorities. Only in developed environment the companies could focus on their own inner development and family businesses have positive effects on economy, as several international experts mentioned before. It is also family entrepreneurship in tourism which

should be in the center of research attention in tourism, mainly in connection to specific Slovakian legislation and its frequent changes.

## Conclusion

The article focused on business environment evaluation based on perception of family owned hospitality businesses. The aim of the article was to identify the main burdens of doing business perceived by Slovakian family owned hospitality businesses as well as to assess their view on prospects of family businesses in Slovakia.

Family owned businesses in Slovakia are more sensitive to changes of external business environment, namely indicators in the intersection of legislative, economic and political environment. Dealing with business conditions hinders internal development of family businesses as well as tourism development in Slovakia. Most discussed business conditions are characteristics of tax and social payment system which lead to high administrative, financial and time severity of doing business in hospitality. We observe a critical situation in Slovakia. A large share of Slovakian family businesses (46 %) in hospitality evaluate doing business in tourism in current conditions as non-prospective. It is important to pay higher attention to Slovakian business environment improvement in research and practice.

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### **Abstrakt (in Polish)**

Głównym celem artykułu jest identyfikacja podstawowych ciężarów utrudniających prowadzenie biznesu postrzeganych przez słowackie firmy rodzinne jak również ocena ich perspektyw rozwoju biznesu rodzinnego na Słowacji. Artykuł analizuje podstawowe dane uzyskane w badaniu opinii przeprowadzonym za pomocą kwestionariuszy w 2013 roku. Postrzeganie środowiska biznesu oceniane jest według określonych wskaźników zewnętrznego środowiska biznesu (warunki prowadzenia działalności), które uzyskano na podstawie wyników pilotażowego badania przeprowadzonego w 2009 roku oraz badań z lat 2010/2011. Wyniki te określają najżywiej dyskutowane tematy oraz ciężary utrudniające prowadzenie biznesu w słowackiej turystyce i hotelarstwie.

**Słowa kluczowe:** rodzinny biznes, hotelarstwo, środowisko biznesu, warunki prowadzenia działalności biznesowej.

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# Students' Attitudes Towards Career in the Tourism Industry – Implications for Tacit Knowledge Management

*Marlena A. Bednarska\**, *Marcin Olszewski\*\**

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## **Abstract**

*The success of tacit knowledge management lies in firms' capabilities to attract and retain employees possessing unique knowledge. The purpose of the paper is to investigate students' attitudes towards career in tourism in the context of tacit knowledge management. The study was conducted on the group of 345 undergraduates and graduates enrolled in tourism and hospitality studies in Poznan. Research revealed that majority of students plan short-term career in tourism, which entails tacit knowledge leakage outside the tourism industry. It was also found that students' attitudes towards tourism careers are significantly influenced by previous work experience and satisfaction with the studies.*

**Keywords:** *tacit knowledge, management, attitudes, career, tourism industry, students.*

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## **Introduction**

Knowledge is becoming widely recognized as an important asset for gaining sustainable competitive advantage (Davenport and Prusak, 1998; Argot and Ingram, 2000), especially in the long term (Gallupe, 2001). According to Nonaka (1991, p. 96) "in an economy where the only certainty is uncertainty, the one sure source of lasting competitive advantage is knowledge". It is crucial how organizations create, acquire, disseminate and use knowledge, and how organizations protect and manage the knowledge they have (Gallupe, 2001).

According to Cooper capturing the tacit knowledge in the tourism industry is one of the major challenges and to date this has not been formally addressed by researchers (2006). Tacit knowledge in the form of skills, know-how and competences, due to duplication and transfer difficulties, is the most important reason for sustaining and enhancing the competitive position of firms (Ambrosini and Bowman, 2008; da Silva, 2012). Tacit knowledge is gained and shared through practice and observation and without the

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exchange of key personnel it is almost non-transferable (Nonaka, Toyama, and Nagata, 2000). It follows that the acquisition of tacit knowledge requires offering working conditions which will attract and retain workers. Due to significant role of young employees in the tourism industry, it is important to determine the possibilities of acquiring workers entering the labour market by examining students' attitudes towards a career in tourism. Findings of similar research carried out in Europe, Asia, America, and Australia clearly demonstrate that for many tourism and hospitality graduates tourism jobs are short-lived professions. (Kusluvan and Kusluvan, 2000; Barron, Maxwell, Broadbridge and Ogden, 2007; Roney and Öztin, 2007; Dickerson, 2009; Jiang and Tribe, 2009; Richardson, 2010). It would be of value to examine this phenomenon in the Polish context.

The purpose of this paper is to investigate students' attitudes towards career in tourism and to indicate the implications of these attitudes for tacit knowledge management. The paper opens by reviewing the literature on the role of tacit knowledge in the tourism market. Then the findings of the study on the students' perception of the attractiveness of career in tourism and its determinants are presented. Finally, the overall implications and recommendations for future research are proposed and the main conclusions are summarised.

### **Tacit knowledge as a strategic asset – literature review**

Knowledge is regarded as one of the most important assets for creating and sustaining competitive advantage of the modern enterprises. The focus on resources that are developed within the organization and difficult to imitate puts organizational knowledge in a preeminent position as the principal source of competitive advantage (Argot and Ingram, 2000). Knowledge has been variously defined: as "justified true belief" (Nonaka, 1994, p. 15) or "mixture of framed experience, values, contextual information, and expert insight" (Davenport and Prusak, 1998, p. 5). Knowledge involves human actions and decisions representing interpretation and application of data (Droege and Hoobler, 2003). As data are interpreted and applied, new knowledge is often developed (Baumard, 1999).

The traditional starting point for analysing knowledge is Polanyi's (1966) distinction between codified and tacit knowledge. Codified knowledge is articulated knowledge, which can be specified verbally or in writing such as patents, drawings, concepts or formulas. This feature accounts for its easy and wide dissemination, therefore codified knowledge is less unique to the knowledge holder in terms of creating competitive advantage. In the current era of globalization, everyone has relatively easy access to codified knowledge

(da Silva, 2012). This kind of knowledge can be exchanged among individuals and organizations in a formalized and relatively simple way (in writing or by using symbols and codes such as block diagrams).

Tacit knowledge, in contrast, is less easily replicated (Leonard and Sensiper, 1998). It exists in the background of consciousness, which Polanyi expressed as “we can know more than we can tell”. Leonard and Sensiper (1998, p. 114) added that “we can often know more than we realise”. Despite its key role in organization performance, the management of tacit knowledge is still challenging to organizations (Ambrosini and Bowman, 2008). This is due to the tacit knowledge characteristics. According to Zack (1999, p. 46) tacit knowledge is “subconsciously understood and applied, difficult to articulate, developed from direct experience, and usually shared through highly interactive conversation, storytelling, and shared experience”. It is included in the individual experience and involves personal beliefs, attitudes, values and intuition. People that possess tacit knowledge cannot readily explain the decision rules that underlie their performance (Polanyi, 1966). Tacit knowledge is highly personal and difficult to formalize, making it difficult to communicate. Summing up, tacit knowledge is a resource that can provide sustainable competitive advantage as it meets all the criteria of the resource-based view of the firm: it is valuable, rare, imperfectly substitutable and imitable (Barney, 1991). In the tourism industry the tacit knowledge is particularly valuable because of the nature of the service product, where the service delivery occurs as a result of interaction between customers and employees and where it is required that employees are knowledgeable of customers’ needs in order to achieve customer satisfaction (Hallin and Marnburg, 2008).

At least four types of tacit knowledge can be identified in literature: embrained, embodied, encultured, and embedded (Blackler, 1995):

- Embrained knowledge is dependent on conceptual skills and cognitive abilities, it allows recognition of underlying patterns, and reflection on these.
- Embodied knowledge is action oriented and called ‘knowledge how’. This knowledge is acquired by doing, and is rooted in specific contexts. This kind of knowledge may include learning from observation or participation in the service process.
- Encultured knowledge refers to the process of achieving shared understandings. Cultural meaning systems are intimately related to the processes of socialization and acculturation; such understandings are likely to depend heavily on language, and hence to be socially constructed and open to negotiation.
- Embedded knowledge resides in systemic routines. The notion of ‘embeddedness’ was introduced by Granovetter (1985), who

proposed a theory of economic action that would neither be heavily dependent on the notion of culture (i.e. be ,oversocialized') nor heavily dependent on theories of the market (i.e. be ,under-socialized'). His idea was that economic behaviour is intimately related to social and institutional arrangements.

The complex nature of valuable tacit knowledge makes its acquisition very difficult (Kogut and Zander, 1992) as it is embodied in organizational members, tools, tasks and networks. Moreover, "tacit knowledge cannot be captured, translated, or converted, but only manifested, in what we do" (Tsoukas, 2003, p. 426). Thus, this kind of knowledge can be acquired only through hands-on experience or learning-by-doing (Almeida and Kogut, 1999; Zucker, Darby and Armstrong, 1998; Filatotchev, Liu, Lu and Wright, 2011). For instance, in hotel organizations, a major part of frontline personnel's domain-specific knowledge is developed due to their interactions with guests, managers, colleagues, suppliers, employees of competing hotels and other external interest groups on a regular basis (Hallin and Marnburg, 2008). The tacit knowledge can be effectively transferred through human mobility (Kaj, Pekka and Hannu, 2003; Song, Almeida and Wu, 2003; Filatotchev et al., 2011). Thus, it is more apt to be lost through employee turnover, when employees leave, companies lose not only human capital, but also accumulated knowledge (Droege and Hoobler, 2003). Companies seeking to acquire tacit knowledge must have the ability to attract human capital, and retention of the tacit knowledge embedded in employees' mind requires offering attractive working conditions.

The possibilities of attracting and retaining suitable employees who are holders of tacit knowledge in tourism stem from the image of the industry held by hospitality and tourism students. The literature on the attractiveness of tourism job attributes contrasts negative and positive characteristics. Among its positives are glamour, the opportunity to travel, meeting people, foreign language use, and task variety, good atmosphere and co-operation with colleagues, as well as prospects for internationally based careers (Szivas, Riley and Airey, 2003; Hjalager, 2003). The negatives include unfavourable remuneration level, limited promotion opportunities, low social status, unfavourable physical working environment, incompetency of management, and poor treatment by supervisory staff (Jiang and Tribe, 2009; Kusluvan and Kusluvan, 2000; Richardson, 2010; Richardson and Butler, 2012; Duncan, Scott and Baum, 2013).

Such negative images may provide reasons why so many employees do not identify the tourism and hospitality industries as a 'career choice' but rather as a 'stop gap' whilst looking for 'something better' (Richardson, 2009; Duncan et al., 2013).

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## Hypotheses and research method

Tacit knowledge is argued to be critical to a firm's capacity to generate and sustain competitive advantage, but a particularly important issue for tourism organisations is how to attract people possessing this tacit knowledge. Many studies have found that students did not believe an employment in the sector would offer them the factors they found important in their job choice. In consequence, they do not plan to pursue a job in tourism upon graduation or consider tourism jobs as the first stepping stone to a career elsewhere and leave the industry within a few years (King, McKercher, and Waryszak, 2003; Lu and Adler, 2009; Jiang and Tribe, 2009; Richardson, 2010; Richardson and Butler, 2012). Leaving the industry is connected with knowledge outflow, which is particularly acute due to the loss of valuable tacit knowledge which cannot be easily and quickly recovered. As a result, the tacit knowledge acquired during studies and first years of work is leaking out of the tourism sector. The consequences of this leakage include loss of the training costs and the time spent on coaching these workers. Moreover, the staff turnover hampers the possibilities for development of knowledge because staffs who already have other plans for their working life than a career in tourism are unlikely to have adequate motivation to contribute to development processes in the firm (Hjalager, 2002).

One of the factors that affects the propensity to work in tourism is previous work experience. Many studies recognize the relevance of previous experiences to the decision to take up and to continue career in the tourism industry. Most of them indicate that the negative image of the industry held by hospitality and tourism students appears to be developed with the increase in the exposure to working life in the industry through a part-time employment and student placements (Kusluvan and Kusluvan, 2000; Jiang and Tribe, 2009; Richardson, 2010). According to Barron and Maxwell the more exposure students have to the hospitality industry, the less commitment they demonstrate (1993).

It is also interesting to determine the relationship between perception of tourism studies and a propensity to work in the tourism industry. Birdir (2002, after: Roney and Öztin, 2007) surveyed tourism students in Turkey in order to find out the reasons why some students were not eager to work in the industry after graduation. The main reason they stated was the lack of quality education in tourism to enable them to be successful in the sector.

The aim of this research is to investigate students' attitudes towards career in the tourism industry and its determinants in the knowledge management context. Specifically, this research tries to ascertain to what extent perceived attractiveness of tourism employment, previous experiences and study satisfaction can influence the propensity to treat the hospitality and tourism

industry as a long-term career sector. On the basis of literature review the following hypotheses are developed.

- H1: Low attractiveness of tourism employment perceived by students deteriorates the willingness to undertake a long-term career in tourism.
- H2: Work experience in the tourism industry deteriorates the willingness to undertake a long-term career in tourism.
- H3: The negative experience with the studies deteriorates the willingness to undertake a long-term career in tourism.

The target population of the present study comprised undergraduates and graduates enrolled in tourism and hospitality studies in universities in Poznan. Eight public and private higher education institutions offered bachelor and master degrees in tourism in 2012 and a total of 4150 students took tourism and hospitality courses. To obtain a representative subset of the target population a single-stage cluster sampling was employed. The sample size was determined based on statistical precision approach – assuming the confidence level at 95%, the desired precision at 5%, and the degree of variability at 50%, and applying the finite population correction produced the minimum sample of 352 respondents.

A measurement instrument was developed based on a review of the literature and previous studies on attitudes of students towards a career in the tourism industry, namely Kusluvan and Kusluvan (2000), Blomme, van Rheede and Tromp, (2009), Bednarska and Olszewski (2010), Richardson and Butler (2012). The questionnaire consisted of four main components. Participants were requested first to envisage an ideal employer and rate a range of 16 items displaying various dimensions of working conditions based on their expectations. In the second section they were asked to assess the analysed attributes regarding employers in the tourism industry. The data enabled to compute the gaps between preferred and perceived job/organisation attributes\*\*\*. Section three sought information about respondents' willingness to pursue careers in the tourism industry. In the last section students reported their age, gender, year of study, study mode, study degree, attitude to tourism studies, and work experience. The inquiry form contained closed-ended questions, for gradations of opinions a seven-point Likert scale was used, ranging from "strongly disagree" (1) to "strongly agree" (7).

Data was collected through group-administered questionnaires distributed during a regularly scheduled class period. A total of 353 participants were recruited for the study. Due to incomplete or incoherent information

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\*\*\* The gap was calculated as a difference between expectation and perception for desired attributes and as a difference between perception and expectation for undesired attribute, thus a positive number represents a negative situation (unmet expectations). (Bednarska and Olszewski, 2010).

8 questionnaires were excluded, which resulted in 345 usable questionnaires for further analysis. The sample was demographically diverse. Participants ranged in age from 18 to 38 years old, with the mean age of 22; and 71 % of them were female. The majority of undergraduates and graduates were at public university (75 %), pursuing bachelor degree (59 %), and the sample was dominated by full time students (73 %). 73 % of those surveyed declared tourism studies to be their first choice and 47 % of them had work experience in the tourism industry. Table 1 shows descriptive statistics for the sample.

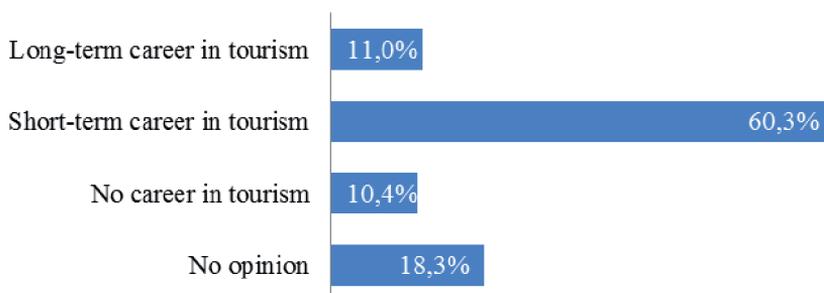
**Table 1.** Respondent profile

Variable	Category	Share [%]
Gender	Female	71.2
	Male	28.8
Age	20 and less	22.1
	21-22	35.7
	23-24	34.9
	25 and more	7.3
First choice studies	Yes	72.8
	No	27.2
Work experience in tourism	Yes	47.1
	No	52.9
Study degree	Bachelor	58.8
	Master	41.2
Study mode	Full time	72.8
	Part time	27.2
Year of study	First	18.9
	Second	8.4
	Third	25.3
	Fourth	18.3
	Fifth	29.1
Type of school	Public	75.1
	Non-public	24.9

The data analysis involved descriptive statistics and correlations to portray the main features of variables under study and relations between them. In order to confirm the dimensionality of the questionnaire the factor analysis was performed. Chi-square and one-way analysis of variance (ANOVA) tests were employed to assess significant differences among groups. The statistical processing of the survey data was conducted using the SPSS software package.

## Analysis

To begin with, the results of dependent variable, i.e. attitude towards career in tourism, will be presented. As Figure 1 shows, over 60% of respondents treat tourism jobs as short-lived professions, with more than 10% intending not to start a career in the tourism industry at all. Only 11% of students plan long-term career in tourism.



**Figure 1.** Attitudes towards career in tourism

Then, the influence of attractiveness of tourism employment on attitude towards career in tourism was examined. An exploratory factor analysis with varimax rotation was performed to reduce the number of variables. All 16 items loaded resulted in a four-factor structure, accounting for 67.7 % of the total variance. Factors were labelled as economic benefits and development, social relations, job content and work-life fit, and customer relations. The results of the procedure are presented in Table 2.

**Table 2.** Summary of factor analysis

Variable	Number of items	Cronbach's alpha
1. Economic benefits & development	6	0.870
2. Social relations	5	0.852
3. Job content & work-life fit	4	0.704
4. Customer relations	1	-

Basic statistics for the study variables are reported in Table 3. It presents means, standard deviations, and correlations among the computed gaps between preferred and perceived job/organisation attributes for generated constructs. The picture that emerges from the table is that students generally do not believe that a career in the tourism industry will offer them values

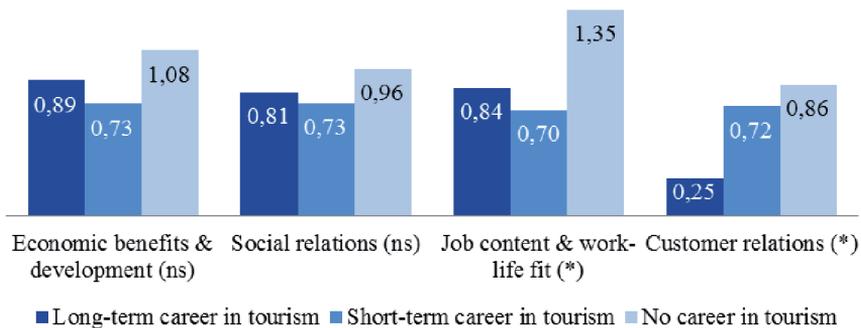
they find desirable, economic benefits and development opportunities being the worst perceived dimension.

**Table 3.** Variable descriptive statistics and correlations

Variable	Mean	Standard deviation	Correlations			
			1.	2.	3.	4.
1. Economic benefits & development – gap	0.7891	0.9324	1.00			
2. Social relations – gap	0.7513	0.9364	0.70**	1.00		
3. Job content & work-life fit – gap	0.7683	0.9890	0.56**	0.52**	1.00	
4. Customer relations – gap	0.6429	1.4392	0.16*	0.17**	0.17**	1.00

\* Significant at the 0.05 level, \*\* significant at the 0.01 level (2-tailed).

It can be assumed that the negative image of the industry as an employer has a negative impact on plans for a career in tourism. In order to identify relations between tourism employment perceptions and intentions of students to pursue tourism careers, the one-way analysis of variance (ANOVA) was applied. The results of the analysis are shown in Figure 2.

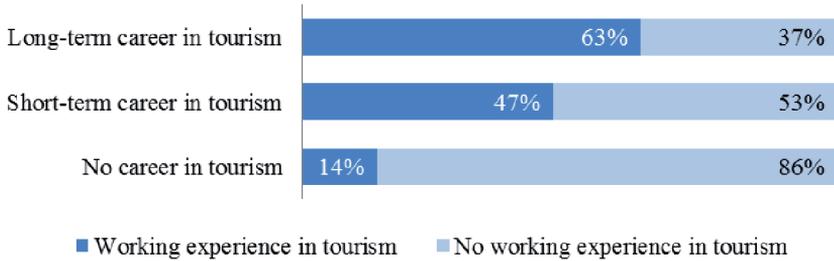


(\*) Significant at the 0.05 level; (ns) not significant.

**Figure 2.** Attitudes towards career and perception of tourism employment

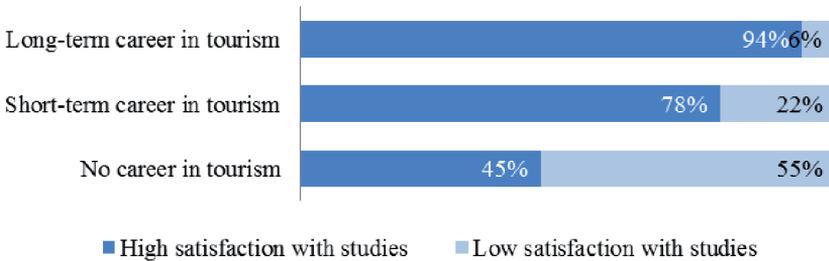
With respect to hypothesis 1, mixed evidence has been found. Significant differences in the perception of work concern two groups of variables: customer relations and job content & work-life fit. Students planning long-term career in tourism evaluate customer relations significantly better than their colleagues not planning a career and those who treat work in tourism as transitory. Job content and work-life balance is also significantly better assessed by those who plan career in tourism than those who do not.

The hypothesized negative effects of working experience on intentions to apply for a job in tourism have not found support in the data. Figure 3 shows that students who have been exposed to working life in tourism are significantly more committed to long-term career in the industry.



**Figure 3.** Attitudes towards career and working experience in tourism

The third hypothesis was positively verified. Students who are satisfied with their studies are significantly more willing to undertake long-term career in tourism. As displayed in Figure 4, majority of students who plan career in tourism declare that they are satisfied with higher education.



**Figure 4.** Attitudes towards career and satisfaction with studies

Summarizing, as hypothesized, unfavourable image of tourism employment and dissatisfaction with studies have a negative impact on commitment to tourism careers. Unexpectedly, students with working experience in tourism are more interested in pursuing tourism-related jobs, thus the second hypothesis cannot be confirmed.

## Discussion

The research has investigated the impact of perception of tourism employment on students' attitude to work in tourism. The results of the study confirm previous findings indicating transitory nature of career in tourism (Jiang and Tribe, 2009; Kusluvan and Kusluvan, 2000; Richardson, 2010; Richardson and Butler, 2012; Duncan et al., 2013). However, the problem of limited loyalty towards employer concerns not only students of tourism and hospitality but is typical for entering the labour market representatives of generation Y. According to Solnet's research, the younger the employees, the more likely they are to quit unexpectedly (2011).

The findings of the study correspond also with those obtained in the course previous research, which highlighted that the negative image of the industry held by hospitality and tourism students caused them not to plan to pursue a job in tourism upon graduation or to leave the industry within a few years (King et al., 2003; Lu and Adler, 2009; Richardson, 2010; Maxwell, Ogden and Broadbridge, 2012). Another noteworthy result is that with the increase in the exposure to working life in the industry, students tend to be more committed to tourism careers. This is not in line with Roney and Oztin (2007), Koyuncu, Burke, Fiksenbaum and Demirer (2008), and Jiang and Tribe (2009), whose research revealed that work experience in the tourism industry led to deteriorated perception of working conditions and more pessimistic view on future job prospects in tourism. The present investigation also echoes previous observation that respondents' attitude to tourism studies is positively related to future employment opportunities perceptions (Roney and Oztin 2007).

Several practical implications of the investigation can be pointed out. First of all, tourism companies, striving for retention of the tacit knowledge, need to identify the expectations of employees and modify their working conditions to ensure they are receiving positive experiences while working. Bearing in mind that students represent generation Y, the employers should respond to their specific expectations. In accordance with numerous studies, they are looking to make a contribution to something worthwhile, to have their input recognized from the start, and they are used to fast outcomes and would not consider devoting years to developing their career. Moreover, they dislike menial and repetitive work and seek new challenges regularly (Cairncross and Bultjens, 2007; Solnet and Hood, 2008). The ability to create working environment that will induce employees' loyalty is a challenge for all employers of generation Y workers. Employers should keep in mind that the most sought after organizational attributes by generation Y graduates include heavy investment in training and development of employees, care about employees as individuals, variety in daily work, freedom to work on

one's own initiative and scope for creativity in one's work (Solnet and Hood, 2008).

Of particular interest are the results concerning the impact of past work experiences on intention of taking up a long-term career in the tourism industry. Having them in mind tourism companies need to intensify their training programs to ensure students are receiving positive experiences while working during their degree. Moreover, they should modify their student placements offer, to put it in line with prospective employers expectations. Solnet's research highlights the importance of making a good first impression on new employees, particularly when they are in their first job (2011).

The results clearly indicate that students' satisfaction with the study fosters their decision to prolong their engagement in the tourism industry as an employee. Making study programs more attractive will therefore lead to the higher satisfaction with the study, and as a result reduce the knowledge leakage outside tourism sector. Universities should also increase students' practical training in order to give them more time to experience tourism jobs. On the other hand students should be made aware of working conditions in the tourism industry before they are enrolled. In order to reduce the gap between perception and expectations "students need to be informed about employment opportunities so that their career decisions are based on choice rather than chance" (Hing and Lomo, 1997, after: Kusluvan and Kusluvan, 2003, p. 96).

Undoubtedly, a limitation of this study is that it was carried out only at universities in one city in Poland. Although students are appropriate respondents for the study, due to unique characteristics of the population the results may not relate to a sample of other prospective employees who have more working experience and are at other stages of their careers. The nature of the sample limits generalizability of the results. Therefore, generalizations beyond the specific context of this research must be guarded. Thus, replication using a more diverse sample would be beneficial. Still to be examined is the degree to which the results could be confirmed for other target groups. Further studies are needed to verify or repudiate these findings within different contexts.

## **Conclusion**

Growing recognition of the significance of tacit knowledge in gaining a competitive advantage has resulted in an intensified awareness amongst practitioners and researchers to better appreciate how to attract and retain employees who are "owners" of tacit knowledge. Taking this into account, continuous study of changing expectations of workers entering

the labour market seems necessary, particularly as generation Y represents distinct expectations from other groups. By investigating their employment expectations, companies would benefit from obtaining guidelines for the tacit knowledge management. This is due to the fact that the acquisition and retention of knowledge embedded in human minds requires attractive employment conditions which are in line with employee requests.

Tacit knowledge leakage can lead to adverse consequences for the employer, the employee and the education system, as:

- The theoretical knowledge (embrained knowledge), acquired during studies will not be completed and translated into practical knowledge (embodied knowledge);
- Investments made on the newly adopted employee are lost; knowledge and time spent on employee induction to the company are wasted;
- Graduates at the beginning of their career often change their career path, which is associated with inefficient educational resources allocation.

Practical implications for knowledge management concern: employees selection process, methods of knowledge protection, and methods of minimizing the costs of the loss of tacit knowledge. During the recruitment process, companies should select employees who are likely to treat tourism jobs as long lived professions, i.e. those who already have working experience in tourism, as well as those who are satisfied with their studies. Companies should strive to minimize the costs of knowledge loss by codification process and ongoing internal learning. Tacit knowledge can be preserved, in part, when firms promote employee interaction, collaboration, and diffusion of non-redundant tacit knowledge (Droege and Hoobler, 2003). Thus, tacit knowledge will contribute to gaining the competitive edge regardless temporary human capital outflow.

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### **Abstrakt (in Polish)**

Skuteczne zarządzanie wiedzą ukrytą wymaga zdolności przyciągania i zatrzymania pracowników, którzy są dysponentami tej wiedzy. Celem artykułu jest określenie nastawienia studentów wobec pracy w turystyce w kontekście zarządzania wiedzą ukrytą. Dzięki badaniom pierwotnym przeprowadzonym na grupie 351 studentów w Poznaniu wykazano, że przeważająca ich większość nie planuje na stałe związać swojej kariery zawodowej z turystyką, co powodować może wyciek wiedzy poza sektor turystyki. Stwierdzono także, że nastawienie studentów wobec pracy w turystyce uwarunkowane jest ich wcześniejszymi doświadczeniami zawodowymi oraz satysfakcją ze studiów.

**Słowa kluczowe:** wiedza ukryta, nastawienie wobec pracy, gospodarka turystyczna, studenci.

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# KSP Polonia Warszawa's Financial Problems – Analysis of Liquidity and Debt

*Elżbieta Marcinkowska\**

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## **Abstract**

*Financial liquidity is one of the most important areas of running business operations. Each entity must keep it at an adequate level. Lack of financial liquidity is the main factor leading to bankruptcy of companies. The analysis of liquidity and debt verifies the ability of an entity to pay current liabilities and also confirms the company's ability to survive on the market. Based on the results of the analysis of liquidity and debt the management should therefore prepare liquidity management strategy. The article is based on the available financial statements of KSP Polonia Warszawa Sportowa Spółka Akcyjna and presents an analysis of its liquidity and debt. The results of this analysis for years 2008-2010 were very alarming and indicative of the upcoming bankruptcy of the club. In July this year, an application was filed with the court confirming insolvency of the club and, by virtue of a decision issued by PZPN (Polish Football Association), Polonia Warszawa, so far playing in the Ekstraklasa (Polish top division), will start the next season in the 4th division. It will take the club many years to regain its position.*

**Keywords:** *sports club, KSP Polonia Warszawa, financial problems, football division, liquidity, debt.*

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## **Introduction**

PZPN (Polish Football Association) decided that Polonia Warszawa, one of the oldest football clubs in Poland, did not receive the license for playing in Ekstraklasa (Polish top division) and in the European cups in the season 2013/2014. By this decision, Polonia Warszawa had to leave Ekstraklasa. By the initial decision of PZPN, the club was supposed to start the next season in the district league. Polonia Warszawa's situation aroused emotions among its supporters, sports activists and journalists.

According to its charter, Polonia Warszawa is a sports club operating in the form of an association, and the main objective of its operation is the promotion of physical culture and sport. The club's activities are regulated by the provisions of the Act dated April 07, 1989 - Law on Associations (Journal

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of Laws from 1989, no. 20, item 104 as amended) and the Act on Sports dated June 25, 2010 (Journal of Laws from 2010, no. 127 item 857) replacing the previous acts: The Act on Physical Culture and the Act on Competitive Sports. As an association, the club derives its income mainly from selling advertising services for the benefit of the sponsor and from selling tickets. The company's charter provides for the possibility of conducting business activities, while the income from these activities is used to achieve the company's statutory objectives and cannot be divided between the association's members (Charter of Polonia Warszawa Sports Club Association, [www.dumastolicy.pl](http://www.dumastolicy.pl)). Polonia Warszawa, not being granted the license for playing in Ekstraklasa, will be relegated to the 4th league in the new football season. PZPN's previous announcements suggested that the club would be playing in the 6th league – the district league. After pressures from club supporters and sports community representatives, PZPN amended the Act on sports and, following the amendment a club reporting itself for the football games may, with PZPN's prior consent, play in the fourth league, in the case of honoured clubs. Polonia Warszawa received such consent.

Polonia Warszawa owes its situation to financial problems. The club is in debt, has no funds to pay the license fee, does not pay its players, is in arrears towards the Social Security Office (ZUS) and the Tax Revenue Office. What led to such gross negligence in the club's financing? The problem is complex and involves bad management of the personnel managing the club and relates to the club's finances. Based on the financial statements presented by the club, the article attempts to evaluate the club's financial situation examining two significant aspects - Polonia Warszawa's liquidity and debt. The available financial statements, namely those the company submitted to the National Court Register (KRS), have been analyzed. At present, the available statements cover the years 2008-2010. The very important financial statements for the years 2011 and 2012 have not been accepted by KRS yet, which obviously does not mean that the club's financial problems appeared as late as in 2012.

Wrong financial management during previous years has forced the club owner to notify a bankruptcy liquidation of KSP Polonia Warszawa in June this year. The analysis of liquidity and debt for 2008-2010 contains crucial information necessary for evaluation of current economic situation of the Club. The outcome data from the reports were alarming. Maintaining and continuation of the financial management policy led to the bankruptcy of the club.

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## History of KSP Polonia Warszawa

Polonia Warszawa is one of the oldest sports clubs in Poland. It began its football activities in 1911. The club's name - Polonia (Latin word for Poland), demonstrated the patriotic attitude of its founders during the Russian annexation. Within several years, Polonia became the most important football club in the then Warsaw, recording a series of successes in sports games in the country. In the years 1928-1939, general Kazimierz Sosnkowski, Józef Piłsudski's closest associate, was the club's president. During World War II, football games were forbidden by the invaders but the championships of Warsaw were played in this period nevertheless. Polonia's numerous football players were killed during the occupation, joining the fight with the Nazi as part of Armia Krajowa (Polish Home Army). The post-war period is a very difficult period for the club, but also full of successes. The club, without any back-up facilities or sports infrastructure, became the champion of Poland in 1946. People from Warsaw identified themselves with Polonia very strongly. This club had faithful and numerous supporters. In 1951, the club's name was changed to Zrzeszenie Sportowe – Kolejarz (Sports Association - Kolejarz). This change resulted from the club's operation vision as seen by the communist authorities.

Sports circles were established in working places instead of sports clubs. Polskie Koleje Państwowe (Polish State Railways) became the patron of the former Polonia. Unfortunately, these changes (including the club's financing) resulted in Polonia's weakness and then marginalization in the domestic football games (Morawski and Krakowiak, 1992; [http://ksppolonia.pl/podstrona,151-historia\\_polonii\\_warszawa.html](http://ksppolonia.pl/podstrona,151-historia_polonii_warszawa.html)). It was only after communism ended that Polonia returned to Ekstraklasa as an important and strong team. Unfortunately, from 2000 the club has been systematically falling down in the division system, first to the 1st league, then to the 2nd league. The club returned to Ekstraklasa a result of taking over another club - Dyskobolia Groclin Grodzisk Wielkopolski. Józef Wojciechowski became the club's owner and president, taking more than 16 000 stocks for the amount of PLN 20 million. The club's financial situation is becoming worse and worse every year. In the summer of 2012, the club was taken over by a new owner, Ireneusz Król. The club started experiencing problems with settling its liabilities, so the leading players left it. Polonia Warszawa is in huge debt.

## Polonia Warszawa in the division football system in Poland

PZPN (Polish Football Association) is an association being the only legal representative of Polish football in Poland and abroad. When performing its tasks, PZPN complies with the provisions of charters, regulations, guidelines

and decisions of FIFA and UEFA of which it is a member. PZPN is responsible for the organization and the course of division games. Based on legal regulations, PZPN grants or refuses to grant football licenses to sports clubs. This is a basic procedure, repeated for each football season. In order to receive a license for playing in the Polish football league, clubs need to meet a number of criteria. These criteria relate to the sports infrastructure, the personnel and administration, the sports, legal and financial criteria are also strictly defined. The basic criterion the clubs need to meet to receive the license is to have a reliable economic-financial situation. The club must not have any overdue liabilities towards football clubs resulting from transfer activities and fees to PZPN (the so-called F-04 criterion), it also must not have any overdue liabilities towards its employees, the Social Security Office and the Tax Revenue Office (the so-called F-06 criterion).

In May this year, PZPN presented a list of sports clubs which received the license for playing in Ekstraklasa. The only club from Ekstraklasa which did not receive the license is Polonia Warszawa, and the reason for such a decision is the club's difficult financial situation. The club appealed against PZPN's decision to the Appeal Commission for Club Licenses at PZPN. However, this commission upheld the previous decision, emphasizing that Polonia Warszawa does not meet the F-04 and F-06 criteria included in PZPN's License Manual 2013/2014 and in the prior Resolution no. V/80 dated April 12 and 13, 2008 of PZPN's Management Board on licenses for clubs.

Polonia Warszawa was the 5th team in Ekstraklasa in the football season 2012/2013. In the new season, according to PZPN's announcements, Polonia Warszawa will be playing in the 4th league.

## **Research methods**

Operations of business entities require periodical analysis. Thanks to it we can determine whether the previous operations have brought about the intended effects as well as specify the directions and methods of improving the business operational effectiveness. Financial analysis is a research tool for the assessment of operations of a business entity. It is a necessary tool of business finance management.

Financial statements are the basic source material for financial analysis. They present assets and financial position of a company and its financial results obtained in a specified period. Financial statements are analyzed using the initial and ratio analysis.

The initial financial statement analysis is determined as an initial stage of financial analysis. It is based on the analysis and assessment of the information resulting from basic financial statements, i.e. income statement,

balance sheet and cash flow statement, resulting in the formulation of initial hypotheses concerning the financial position of a company. As part of the initial analysis, we conducted a vertical analysis (analysis of structure) and a horizontal analysis (analysis of dynamics) of the financial statement elements.

The ratio analysis is a method of analytical tests of information that is included in financial statements. Thanks to the financial ratios, we may control the condition and financial position of a company and these ratios can be used for current assessment and for forecasting the financial position of the analyzed entity.

The general formula of financial ratio is as follows:

$$W = \frac{Y}{X}$$

where:

$W$  – financial ratio

$Y, X$  – financial phenomena

Some selected areas of financial analysis have been used in the article, thanks to which we can analyze financial liquidity and debt of an entity.

Financial liquidity was measured on the basis of:

- static methods,
- ratios of assessment of cash flows obtained for a reporting period.

Debt of a company was analyzed on the basis of selected ratios of the financial analysis that reflect the analyzed phenomenon.

The conducted analysis of liquidity and debt should provide information about:

- the correctness of the asset and capital structure,
- the ability of the analyzed company to pay current expenses,
- the ability of the analyzed entity to repay debt,
- the ability of the company to generate cash surpluses.

The lack of liquidity may indicate bankruptcy of a company in the near future. The results of the analysis are the basis for the company management to create a strategy that enables keeping and improving liquidity.

### **Analysis of KSP Polonia Warszawa SSA general financial situation**

KSP Polonia Warszawa is a football club organized in the form of a joint stock company. As a joint stock company, Polonia Warszawa is obliged to present the annual financial statement showing its economic position and financial results. This statement is subject to a mandatory audit by an expert auditor. The statement submitted by the company is published in Monitor

Polski B (Official Journal of the Republic of Poland). Polonia Warszawa is an entity which does not present its financial statements systematically. As at today, i.e. July 14, 2013, the current financial statement submitted to the National Court Register is the statement for the year 2010. In this statement, the expert auditor notes that the company did not submit the statement for the year 2009 (financial data for the year 2009 is available in the statement for the year 2010 – as comparative data). However, it is worth analyzing the last available financial statements because the company's situation does not change so rapidly every year and the previous statements are the background for evaluating KSP Polonia Warszawa's financial situation today.

The article analyzes a group of ratios showing the liquidity and debt in the company.

The analysis covers the period 2008-2010. As it has already been pointed out, these are the only available financial statements presented in Monitor Polski B and in the National Court Register.

Financial management indicators have been used in order to analyze liquidity and debt. These indicators allow us to carry out a detailed analysis of the financial situation and ability to pay liabilities of the company. The performed liquidity and debt analysis should clarify the following tasks:

- Are the Club's financial problems a result of faulty management during last two years?
- What are the main reasons for losing the financial capacity by the club?

However, before the presented article emphasizes the liquidity and debt, it is worth examining a part of the income statement. The basis for financial problems, in the form of unpaid debts, is the relation of revenue to operating costs. The income statement presented by the club by function does not make it possible to precisely analyze its operating costs but it may be assumed that the major items are the remuneration for KSP Polonia's players and charges on remunerations. The website [polsatsport.pl](http://polsatsport.pl) revealed part of the document dated July 2012 which concerned contract details of Polonia Warszawa's players. The document shows that average, monthly salaries of Polonia Warszawa's players amount to PLN 50-60.000 (Kołtoń, 2013). The sports press defined Polonia Warszawa as "the island of welfare". Almost each player who joined this club was among the best paid players in Ekstraklasa. Throughout several years, Polonia Warszawa contracted more than one hundred players. Table 1 presents the relations of sales revenues to operating costs.

**Table 1.** Unprofitable sales of KSP Polonia Warszawa

Itemization	2008	2009	2010
Net revenues from sales	11,717,242	11,790,051	12.,202,168
Operating costs	18,580,011	22,586,965	33,717,041
Loss on sales	-6,862,769	-10,796,912	-21,514,871
Net loss	-21,256,975	-10,891,096	-19,861,326

**Source:** Based on financial statements from KSP Polonia Warszawa.

Sales revenues in Polonia Warszawa are two or even three times (in 2010) lower than the incurred operating costs. This obviously affects the club's financial result. Throughout the whole examined period, Polonia incurred a financial loss. This deficit of sales is the foundation for Polonia Warszawa's accumulating financial problems in the next years.

### Liquidity of KSP Polonia Warszawa

Liquidity is defined as the ability to settle current liabilities, formed during the conducted business activities. This is the classic definition of the phenomenon of financial liquidity. Another definition of liquidity assumes that liquidity also happens when one asset is exchanged for another (Pałczyńska-Gościński, 2006). Financial liquidity is also defined as the ability to purchase (Michalski, 2004). We may also encounter the definition of *income balance* being a long-term financial liquidity. It is treated as a surplus of cash revenues over cash expenses (Maślanka, 2008). Apart from liquidity, there is the notion of solvency in the financial analysis. It should not be identified with liquidity because solvency means the entity's ability to fully service the debt, i.e. the company may settle all liabilities at any time.

Maintaining financial liquidity is the guarantee of ensuring relevant functioning for the company. Companies may not earn profits for some time and they will not be threatened with bankruptcy. However, if they have problems maintaining liquidity, business activities are abandoned in many cases.

The examination and analysis of the business entity's liquidity is worth conducting in two perspectives, the static and the dynamic one. In order to evaluate the liquidity of a given entity in a complex manner, we use information included in the financial statement, and in particular in the balance sheet and the cash flow statement.

### Static analysis of liquidity

In order to present the comprehensive perspective of the audited entity's financial liquidity, it is worth beginning such analysis with examining the relations between the capital and the assets. The golden rules of finance and balance are used for this purpose. Table 2 presents the results of the analysis of these two basic principles which should be kept in the company.

**Table 2.** The golden financial rule of KSP Polonia Warszawa

Ratios	2008	2009	2010
(Fixed assets/Long-term capital) $\leq 1$	2.91	-0.25	-0.42
(Current assets/Short-term capital) $\geq 1$	0.81	0.13	0.20

**Source:** Authors' research based on financial statements from KSP Polonia Warszawa.

The golden financial rule binds the capital with the assets. The long-term capital should, according to this rule, finance the long-term assets, and the short-term capital should cover the short-term assets. Inferring from the golden rule of financing we may already see very serious symptoms of the examined company's financial problems. In the examined period, KSP Polonia does not meet the assumptions of the golden financial rule. In addition, this company achieves negative results in the examined area. When analyzing the financial liquidity in the situation when negative values of examined indexes are achieved, this means that the situation is really very difficult and the company is threatened with bankruptcy. Therefore, KS Polonia's financial problems began earlier and the club's difficult situation stems from incorrect financial management. Table 3 presents the results of the analysis of the golden balance rule.

**Table 3.** The golden balance rule of KSP Polonia Warszawa

Ratios	2008	2009	2010
Equity capital/Fixed assets $\leq 1$	0.34	-4.0	-2.40
Constant capital/Fixed assets $> 1$	0.34	-4.0	-2.39

**Source:** Authors' research based on financial statements from KSP Polonia Warszawa.

According to the golden balance rule, the company's fixed assets should be completely financed with equity. If this condition is not met, the value of equity which is too small may be increased by long-term liabilities and then the equity earned in such a manner should finance the company's fixed assets. In the examined period, Polonia Warszawa did not achieve target values typical of the examined indexes. On the contrary, in the years 2009

and 2010 it achieved negative values of the examined indexes. KSP Polonia has a negative value of equity which completely disturbs the golden balance rule (compare Tables 2 and 3).

To sum up, the examined company did not observe the golden rules of finance and balance. We may thus conclude that the company has had serious problems with financing its activities as early as from 2008.

Financial liquidity understood as the ability to settle current liabilities is evaluated in the company based on three basic ratios. These ratios illustrate the relation between current assets and current liabilities. Below we present the formulas for determining ratios (Sierpińska and Jachna, 2007, pp. 81-82).

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick ratio} = \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$$

$$\text{Treasury ratio} = \frac{\text{cash and other pecuniary assets}}{\text{current liabilities}}$$

Table 4 presents the results of the liquidity analysis from the static perspective.

**Table 4.** Ratios of liquidity of KSP Polonia Warszawa

Ratios	Optimum Value	Ratios of Polonia Warszawa 2008	Sectoral ratios 2008	Ratios of Polonia Warszawa 2009	Sectoral ratios 2009	Ratios of Polonia Warszawa 2010	Sectoral ratios 2010
Current ratio	1.2-2	0.81	3.65	0.13	1.37	0.20	2.66
Quick ratio	>1	0.73	3.27	0.13	1.28	0.18	2.29
Treasury ratio	-	0.10	1.99	0.001	0.81	0.001	1.40

**Source:** Authors' research based on financial statements from KSP Polonia Warszawa.

The current liquidity ratio expressing the relation between current assets and current liabilities in the examined company did not reach the values considered to be optimal and confirming the preservation of liquidity. This ratio adopted values that differed widely from model values. Another increased liquidity ratio, which in its formula removes those assets which are characterized by a low degree of exchangeability into cash (stock, prepayments) from current assets also did not achieve the optimum level in the examined period. The achieved results confirm the previous analysis results that the examined sports club does not have the ability to settle

current liabilities and this leads to their accumulation. The presented ratio is considered the most reliable in the evaluation of financial liquidity, in the static perspective.

The third of the presented ratios, the so-called cash ratio, examines the company's ability to immediately settle liabilities with possessed cash funds. Authors presenting the problems of liquidity analysis most often do not provide a precise optimum value here. However, we may find the information that the optimum ratio value is at the level of 0.2 (Pomykalska and Pomykalski, 2007, p. 74). It is assumed that cash resources should be kept at a low level. In the years 2009 and 2010 Polonia Warszawa actually had no cash funds. Liquidity ratios of KSP Polonia Warsaw were related to sector ratios for sports activities, recreation and entertainment. KSP Polonia's ratios on industry confirm clearly its problems with liquidity.

### Dynamic analysis of liquidity

Companies do not go bankrupt because they do not earn profit. They go bankrupt because they do not have funds to settle their liabilities. The cash flow statement is a very important element of the financial statement. It demonstrates the cash funds condition in three areas of business entity activities: in the operating, investment and financial activities. The cash flow statement presents the actual cash incomes and expenses. Cash flows are used to examine financial liquidity, effectiveness in financial management. Table 5 presents the results of a preliminary analysis of the cash flow statement, and thus indicates the general financial situation of the examined entity in the field of operating, investment and financial activities.

**Table 5.** Cash flow directions of KSP Polonia Warszawa

Cash flows	2008	2009	2010
Flows from operating activities	-2,286,499 (-)	-11,360,821(-)	-21,965,371(-)
Flows from investment activities	23,852,674(+)	-2,997,824 (-)	-4,504,698 (-)
Flows from financial activities	-23,500,000(-)	14,359,432(+)	26,395,000 (+)
Variant	VI	VII	VII

**Source:** Based on financial statements of KSP Polonia Warszawa.

Analyzing cash flows in the three segments of activities and taking into account the direction of cash flows, eight possible variants of the financial situation in the company have been distinguished (Nowak, 2008, pp. 142-143). The first four variants are based on a positive balance in flows from operating activities which stabilize the company's financial situation.

The next four variants are related to the deficiency of cash funds in the operating activities. Cash flows assume variant VI in KSP Polonia Warszawa in 2008. This means that the company does not have a positive balance in the operating financial activities but earns it in investment activities, selling possessed fixed assets and intangible assets. This means that the company has financial problems and the deficiency of cash is covered by selling fixed assets. In 2009 and 2010 the club accepts variant VII. Polonia Warszawa achieves a positive balance only with regard to its financial activities. Therefore, financial deficiencies from the operating and investment activities are covered by credits, loans and issuing stocks. To sum up, the club's financial situation is unfavourable. Polonia Warszawa does not earn in the manner which is the most favourable for it, namely from the operating activities. Cash shortages from basic activities are covered by credits and loans and by the capitalization of investments. If such a situation is repeated in the future years, the club is threatened with the loss of liquidity.

The operating activities are the most important in the area of the presented segments of activities. Companies should conduct their basic business activities so as to ensure that a positive balance is earned. The analysis of initial cash flows is supplemented by the specification of the balance (+/-) of flows from the operating activities with the net financial result, which has been presented in Table 6.

**Table 6.** Cash flow and net profit (loss) of KSP Polonia Warszawa

Itemization	2008	2009	2010
Flows from operating activities	-	-	-
Net profit (loss)	-	-	-
Variant	IV	IV	IV

**Source:** Authors' research based on financial statements from KSP Polonia Warszawa.

The specification of these financial parameters and possible combinations leads to distinguishing four variants (Nowak, 2008, pp. 144-145). Unfortunately, the examined company does not generate a positive balance in the operating activities and does not earn a net profit. This constitutes a very unfavourable situation, variant IV. This confirms the initial results of the analysis, KSP Polonia Warszawa has serious financial problems. However, the company's management is still able to secure subsequent loans and credits and cover negative balances earned in the operating and investment activities.

An important supplementation of the initial analysis of cash flows are dynamic liquidity ratios, the determination of which is based on data coming from the cash flow statement.

The dynamic analysis ratios include three basic groups. These are:

- cash flow structure ratios,
- cash sufficiency ratios,
- cash efficiency ratios.

In most cases, the formula of these ratios is based on positive cash flows from operating activities. Below we present the formulas for cash flows structure ratios (Olzacka, 2006, pp. 144-146).

Abilities to make cash balance from operating activities:

$$\frac{\text{cash flows from operating activities}}{\text{cash flows from investment activities} + \text{inflows from investment activities} + \text{inflows from financial activities}}$$

Participation of the net profit in the operating activities:

$$\frac{\text{net profit}}{\text{cash flows from operating activities}}$$

Participation of the depreciation in the operating activities:

$$\frac{\text{depreciation}}{\text{cash flows from operating activities}}$$

The financing of operational activities:

$$\frac{\text{negative cash flows from investment activities}}{\text{cash flows from operating activities} + \text{cash flows from financing activities}}$$

Dependences on financing outside sources:

$$\frac{\text{inflows from financing activities}}{\text{cash flows from operating activities}}$$

The monetary rate of self-sufficiency of the financial activities:

$$\frac{\text{inflows from financing activities}}{\text{outflows from financing activities}}$$

Table 7 presents the values of cash flow structure ratios.

**Table 7.** Cash flow structure ratios of KSP Polonia Warszawa

Ratio	2008	2009	2010
Abilities to make cash balance from operating activities	-0.01	-3.79	-2.39
Participation of the net profit in the operating activities	-	-	-
Participation of the depreciation in the operating activities	-0.90	-0.11	-0.10
The financing of operational activities	-	-1.00	0.21
Dependences on financing outside sources	-	-1.26	-1.20
The monetary rate of self-sufficiency of the financial activities	-	-	-

**Source:** Authors' research based on financial statements from KSP Polonia Warszawa.

The determined values of cash flow structure ratios only confirm the previous conclusions from the initial analysis of liquidity. The ratios assumed negative values. They do not correspond to the main assumptions which result from the formula of determining the ratios. Two approaches in the manner of presentation of negative values of the examined ratios have been developed in the analysis of cash flows. One approach assumes omitting these ratios in the analysis, the other one assumes their presentation so as to emphasize financial problems. Therefore, KSP Polonia Warszawa has a difficult financial situation in the examined period. Generating a negative balance in the operating activities, we may not indicate the share of cash surplus in the operating activities as compared to all implemented incomes (ratio no. 5, Table 7). We may not examine the share of profit in the operating cash flows because the company earned a net loss and, additionally, net operating cash flows are negative.

Below are the formulas for **cash flows sufficiency ratios** (Olzacka, 2006, pp. 148-149).

$$\text{Ratio of the overall sufficiency of cash} = \frac{\text{cash flows from operating activities}}{\text{debt repayment} + \text{outflows from investment activities} + \text{payment of dividends}}$$

$$\text{Ratio of repayment of debt} = \frac{\text{repayment of credits and loans}}{\text{cash flows from operating activities}}$$

$$\text{Interest coverage ratio} = \frac{\text{interest}}{\text{cash flows from operating activities}}$$

$$\text{Long-term debt ratio} = \frac{\text{repayment of long-term credits and loans}}{\text{cash flows from operating activities}}$$

$$\text{Ratio of investment expenditure} = \frac{\text{purchasing of intangible assets and tangible fixed assets}}{\text{cash flows from operating activities}}$$

$$\text{Dividend payout ratio} = \frac{\text{dividends}}{\text{cash flows from operating activities}}$$

The Table 8 presents a group of cash sufficiency ratios.

**Table 8.** Ratios of the cash sufficiency of KSP Polonia Warszawa

Ratios	2008	2009	2010
Ratio of the overall sufficiency of cash	-9.71	-3.79	-2.37
Ratio of repayment of debt	-	-	-
Interest coverage ratio	-	-	-
Long-term debt ratio	-	-	-
Ratio of financing of investment expenditure	-0.02	-0.26	-0.42
Dividend payout ratio	-10.27	-	-

**Source:** Authors' research based on financial statements from KSP Polonia Warszawa

These ratios illustrate the capacity of operating activities to generate cash. The earned surplus should cover the expenses in the investment activities and, first of all, in the financial activities. The ratios are negative. KSP Polonia does not pay its liabilities on account of loans and credits (both long-term and short-term), does not pay interest, small investment expenses are not settled with funds from the operating activities (deficiency). The only financial expense which took place in the analyzed period is that incurred in 2008 when the company paid more than PLN 23 million for dividend and other payments to its owners.

Below are the formulas for cash flow efficiency ratios (Olzacka, 2006, pp. 149-152).

Ratio of monetary of sales performance:

$$\frac{\text{cash flows from operating activities}}{\text{net revenues from sales of products, goods and materials}}$$

Ratio of to the operating surplus to profit from operating activities:

$$\frac{\text{cash flows from operating activities}}{\text{profit on operating activities}}$$

Ratio of monetary of capital performance:

$$\frac{\text{interest}}{\text{cash flows from operating activities}}$$

The next group of dynamic liquidity ratios are cash efficiency ratios (see Table 9).

**Table 9.** Ratios of the cash efficiency of KSP Polonia Warszawa

Ratios	2009	2010	2011
Ratio of monetary of sales performance	-0,19	-0,96	-1,8
Ratio of to the operating surplus to profit from operating activities	-	-	-
Ratio of monetary of capital performance	-0,64	-2,39	-1,4

**Source:** Authors' research based on financial statements from KSP Polonia Warszawa.

The higher the value of cash efficiency ratios, the better the company's financial situation. KSP Polonia Warszawa has no cash surplus from the operating activities and this affects the ratio values. The company did not earn operating profit. Another group of financial liquidity indicators only emphasizes the football club's difficult situation.

### Debt analysis of KSP Polonia Warszawa

Polonia Warszawa's financial problems result from the lack of cash funds to settle liabilities. The club did not receive a license because it did not pay its employees, players, did not pay ZUS premiums and did not pay advance income tax payments. The club's situation today results from ineffective finance management in the previous years. The symptom of Polonia's financial problems may be recorded as early as in 2008 and in the subsequent years the financial results only deteriorated. The club supplemented cash fund shortages, which may lead companies to bankruptcy, by incurring subsequent credits, not settling parts of current liabilities. Table 10 presents the value of held assets and the basic sources for its financing and their dynamics.

**Table 10.** Financing of equity and foreign capital in KSP Polonia Warszawa

Itemization	2008	2009	2010	Growth rate	Growth rate
				2009/2008	2010/2009
Total assets	3 563 628	4 743 749	14 902 115	33.12%	214.14%
Equity capital	315 471	-10 674 898	-19 879 424	-3483.80%	-86.23%
Liabilities and provisions for liabilities	3 248157	15 418 647	34 781 539	374.69%	125.58%

**Source:** Authors' research based on financial statements from KSP Polonia Warszawa.

In the years 2008 and 2009, the Polonia Warszawa football club maintained the value of held assets at a similar level, and in 2010 it invested funds in a group of tangible assets (intangible assets and fixed assets). Such a situation in the company's property does not raise any objections but the manner of its financing does. Since 2009, the company's equity has been negative and the change dynamics ratio emphasizes the deterioration of this situation. Therefore, the club covers the value of held assets and the negative equity with liabilities (debt). No rules of financing are preserved (the golden financial rules presented earlier, see Table 2 and Table 3). At this point, it is worth observing an important provision in the Code of Commercial Companies, Article 397 and verify the club's situation in connection with this article. Article 397 of the Code of Commercial Companies states:

If the balance sheet drawn up by the management demonstrates a loss exceeding the sum of supplementary and reserve capitals and one third of the initial capital, the management is obliged to immediately summon the General Assembly in order to pass a resolution concerning the company's further existence (p.93).

Table 11 presents the values of capitals covering the company's net loss.

**Table 11.** Cover losses in accordance with article 397 of the Code of Commercial Companies

Itemization	2008	2009	2010
I. Share capital (1/3)	5 571 667	5 571 667	5 905 000
II. Supplementary capital	6 595 639	6 595 639	16 295 639
III. Other reserve capital	287 148	287 148	287 148
Net profit (loss)	-21 256 975	-10 891 097	-19 861 326
Fulfilled condition art. 397	no	yes	yes

**Source:** Authors' research based on financial statements from KSP Polonia Warszawa.

The year 2008 is the period of ownership changes. The financial result in the following year, 2009, is still negative but the recorded loss is definitely lower than in 2008. Unfortunately, in 2010 the situation once again becomes worse. The club records a loss at the level of almost PLN 20 million. Table 12 presents the value of liabilities and on what account they were created, their structure and dynamics.

**Table 12.** Structure and Dynamics of Liabilities of KSP Polonia Warszawa

Itemization	2008	Share %	2009	Share %	2010	Share %	Growth rate 2009/2008	Growth rate 2010/2009
Liabilities and provisions for liabilities	3 248 157	100.0%	15 418 647	100.0%	34 781 539	100.0%	374.69%	125.58%
I. Long-term liabilities	0	0.0%	0	0.0%	1 415 890	4.1%	-	-
II. Short-term liabilities	3 248 157	100.0%	15 400 647	99.9%	33 345 648	95.9%	374.13%	116.52%
• to related parties	0	0.0%	0	0.0%	13 113 513	37.7%	-	-
• credits and loans	0	0.0%	14 359 432	93.1%	17 036 179	49.0%	-	18.64%
• trade liabilities	950 180	29.3%	507 364	3.3%	1 192 938	3.4%	-46.60%	135.12%
• tax, customs, insurance and other liabilities	1 652 543	50.9%	532 805	3.5%	802 602	2.3%	-67.76%	50.64%
• payroll liabilities	642 147	19.8%	0	0.0%	1 186 499	3.4%	-100.00%	-
• other	3 288	0.1%	1 046	0.0%	13 918	0.0%	-68.20%	1231.23%

**Source:** Author's research based on financial statements from KSP Polonia Warszawa.

The club Polonia Warszawa is financed from short-term liabilities. This is a very unfavourable variant leading to a debt spiral. This is confirmed by its dynamics. The company does not settle its liabilities on account of remuneration and public liabilities and incurs short-term credits and loans which are expensive in operation.

The debt analysis should provide an answer to whether the level of external capital financing the company's activities creates a hazard for financial independence.

Below are the formulas for **debt ratios** (Sierpińska and Jachna, 2007, pp. 88-90).

$$\text{Debt ratio} = \frac{\text{liabilities and provisions for liabilities}}{\text{total assets}}$$

$$\text{Debt to equity ratio} = \frac{\text{liabilities and provisions for liabilities}}{\text{equity}}$$

$$\text{Ratio of long-term liabilities} = \frac{\text{long-term liabilities}}{\text{equity}}$$

$$\text{Interest coverage ratio} = \frac{\text{gross profit+interest}}{\text{capital instalments+interest}}$$

This examination will be conducted in a group of ratios demonstrating the level of debt (Table 13).

**Table 13.** Ratios of debt of KSP Polonia Warszawa

Ratios	2008	2009	2010
Debt ratio	0,91	3,25	2,33
Debt to equity ratio	10,30	-1,44	-1,75
Ratio of long-term liabilities	0,00	0,00	0,04
Interest coverage ratio	0,00	-18,54	-11,82

**Source:** Authors' research based on financial statements from KSP Polonia Warszawa.

The overall debt ratio demonstrating the share of external capital in financing assets should reach the level of 0.57-0.67 (Sierpinska and Jachna, 2006, p. 168). The higher its level, which is the case of Polonia Warszawa, the higher financial risk for the creditors. The general debt ratio is supplemented by the equity debt ratio which presents the relation between debt and equity. The ratio's level should vary from 1 to 3 and this is the condition for maintaining financial stability. The lower limit refers to small companies, the upper limit - to large companies (Nowak, 2008, p. 224). Polonia Warszawa's ratios do not meet this condition. Polonia Warszawa actually does not incur long-term liabilities. This is an unfavourable situation because such liabilities are not so urgent in repayment and stabilize the company's finances. As it has already been emphasized, the company is almost entirely financed from short-term liabilities. They constitute 100% in the years 2008, 2009 and 96% in 2010 (see Table 12).

The last presented ratio is the ratio of interest coverage with gross profit. The accepted standard for this ratio ranges from 4 to 5 (Sierpińska and Jachna, 2006, p. 171). In the examined period, KSP Polonia Warszawa did not earn gross profit which was supposed to cover interest. In addition, cash flows from financial activities prove that interest charged in the income statement was not settled.

## Conclusion

KSP Polonia Warszawa SSA is one of the oldest sports clubs in Poland. The club's incorrect finance management lead to today's situation in which it is relegated from Ekstraklasa to the 4th league. High operating costs, two or three times exceeding the club's revenues, were reflected in the examined company's unprofitability. Despite the club's difficult financial situation in the years 2008-2010, no effective solutions were undertaken in this respect. In the period covered by the examination and in the following years, the club financed its functioning by incurred credits and loans. It did not pay its incurred obligations as early as in the years 2008-2010.

KSP Polonia Warszawa's problem is that of the costs of basic activities. In the years 2008-2011, the club contracted more than one hundred players. The sports press widely commented the owner's extravagance and the lack of a strategy. In 2012, Polonia had a new owner. Supporters and sports activists hoped that the new investor would end Polonia's financial problems. However, this did not happen and these problems only intensified. They became so serious that they threatened the club's existence and functioning. The club had no money to pay overdue remunerations, social security premiums and other financial liabilities. It had no funds to pay the license fee.

Today, Polonia Warszawa is playing in the 4th league. Association of KS Polonia Warszawa based on MKS Polonia, namely the youth football section, is currently responsible for the club's reconstruction. The club is being built from the scratch.

The main conclusions of the analysis of liquidity and debt are as follow:

- Club's financial problems are not only the result of incorrect financial management in recent years. Serious symptoms of financial problems are confirmed by the analysis for the period 2008-2010.
- There are no possibilities to generate cash flows by company whose incomes are lower than the annual operating costs. The company will stay unprofitable, with no ability to generate profits.
- The Club failed to meet the "golden financial rule" and "golden balance rule" during the period. Violating these rules shows that the capital structure becomes inefficient. The club finances operating and investing activities by contracting more loans.
- The liquidity indicators show the club's inability to settle its current liabilities.
- Analysis of the cash flow statement shows that the company does not generate cash from main operational activities. In accordance with good practice, a company's operating activities should generate a surplus. Negative cash flows leads to a loss of liquidity.
- Debt analysis indicators fulfill the analysis of liquidity. The obtained values of the investigated indicators show an increase of financial risk.

Financial problems led KSP Polonia Warsaw to bankruptcy. For many years, the club has sustained a financial loss. The case of KSP Polonia shows that qualified and professional management is crucial for the organization. Necessary knowledge of sport organization is a key to its efficient management.

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### **Abstrakt (in Polish)**

*Płynność finansowa to jeden z najważniejszych obszarów prowadzenia działalności gospodarczej. Utrzymanie jej na odpowiednim poziomie jest niezbędne dla każdego podmiotu gospodarczego. Brak płynności finansowej jest podstawowym czynnikiem prowadzącym do bankructwa przedsiębiorstw. Analiza płynności i zadłużenia bada zdolność podmiotu do regulowania bieżących zobowiązań, ale również potwierdza zdolność firmy do utrzymania się na rynku. Kadra kierownicza powinna zatem w oparciu o wyniki analizy płynności i zadłużenia opracować strategię zarządzania płynnością. W artykule, w oparciu o dostępne sprawozdania finansowe KSP Polonia Warszawa Sportowa Spółka Akcyjna, przeprowadzono analizę płynności i zadłużenia tegoż podmiotu. Uzyskane wyniki analizy płynności i zadłużenie KSP Polonia przeprowadzone za okres 2008-2010 były bardzo niepokojące i sygnalizowały nadchodzące bankructwo klubu. W lipcu tego roku wpłynął do sądu wniosek potwierdzający upadłość klubu a decyzją Polskiego Związku Piłki Nożnej najbliższy sezon piłkarski KS Polonia Warszawa, dotychczas grający w Ekstraklasie, rozpocznie w IV lidze. Swoją pozycję w krajowej piłce nożnej klub będzie odbudowywać przez wiele następnych lat.*

**Słowa kluczowe:** klub sportowy, KSP Polonia Warszawa, problemy finansowe, liga piłkarska, płynność, zadłużenie.



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# Ambush Marketing in Poland Before the 2012 European Football Championship

*Marcin Gębarowski\**

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## **Abstract**

*Activities belonging to ambush marketing (parasite marketing) are more and more widely undertaken with regard to subsequent, huge sports events. Therefore, this article analyzes the scope of using this form of promotion in the period that preceded the 2012 European Football Championship. A reference has been made to Poland – a country which was a co-host of the championship. On the Polish market, owners of many brands performed actions that aimed at “stealing” image effects which should be achieved only by official sponsors who support such huge tournament (which is considered to be one of the three greatest sports events all around the world – apart from the Summer Olympic Games and the Football World Cup). The article has two objectives. First, it describes a concept of promoting selected brands (based on relation to the EURO 2012), identifying the scope of using ambush marketing forms in relation to Polish consumers. Second, it presents results of research which illustrates differences in conceiving the brands of both official sponsors and those – to whom one can attribute a name of ambushers.*

**Keywords:** *sports marketing, sponsoring, ambush marketing, UEFA, EURO 2012, Poland, football championship.*

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## **Introduction**

Due to the fact that sport is more and more frequently used in marketing actions taken by market entities, numerous examples of using ambush marketing all over the world can be observed for many years. It is, however, still a new phenomenon in countries of Central East Europe, where the level of sports marketing diverges significantly from the one on the developed markets (e.g. in the USA or Western Europe). Therefore, after Poland had been awarded the rights to co-host the UEFA EURO in 2012, the analysed phenomenon attracted intense interest and its use increased on an unprecedented scale.

Poland and Ukraine – the co-hosts of the EURO 2012 – in the period that preceded the tournament, had to face many challenges. For the purpose of the championship, new football stadiums were constructed and the sports

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infrastructure was prepared for team base camps. Moreover, an offer of hotels was considerably enhanced, airports and railway stations were modernised, new roads and motorways were built. Many services were prepared for the organisation of such a huge event. Also, a new dimension of marketing activity appeared – one of the phenomena that occurred in that time referred to a substantial increase of frequency of the actions which can be categorized as ambush marketing practices.

This article focuses on this form of marketing activity, which is related to sponsoring and carried out in order to associate an individual brand with a huge sports event that is broadcast by the media. However, this form of promotion is used by entities which are not official sponsors. The aim of this article is, first of all, to indicate the ideas which were used by ambushers in Poland in the period that preceded the EURO 2012, as well as to present the results of research which concerned the recognisability of the brands of official sponsors of the European Football Championship.

### **The nature of ambush marketing and the areas of its analysis – literature review**

Ambush marketing appeared for the first time in the literature at the end of the 1980's – a few years after first instances of “stealing the image” of official sponsors of huge sports events had occurred. One of the very first definitions of the analysed phenomenon was given by Sandler and Shani (1989), who claimed that “this tactic involves the efforts of an organization to associate itself indirectly with an event in an effort to reap the same benefits as an official sponsor” (p. 9). At the same time, a synonymous term – parasite marketing – began to be used as well. In the following years there were attempts to define the analysed term more precisely – specifying it in both a narrow and a wide sense.

According to Schmitz (2005), in a narrow sense, ambush marketing refers to the direct efforts of one party to weaken or attack a competitor's official association with a sports organization acquired through the payment of sponsorship fees. In a broader sense, rather than such direct and intentional misrepresentation, ambush marketing refers to a company's attempt to capitalize on the goodwill, reputation, and popularity of a particular event by creating an association without the authorization or consent of the necessary parties. Some popular indirect ambush techniques include buying commercial time prior to and during event broadcasts, sponsoring the broadcasts of events rather than directly sponsoring the event, sponsoring individual teams and athletes, and using sporting events tickets in consumer giveaways, sweepstakes, or contests (p. 205).

When defining the nature of ambush marketing, numerous examples were given, which presented its evolution. At present, the analysed phenomenon refers to the majority of global sports events, however, initially, ambush marketing was related to the Olympic Games (Shani and Sandler, 1998, pp. 369-371; Burton and Chadwick, 2009, p. 305). It is believed that the first instance of parasite marketing concerned the actions taken by an owner of the *Kodak* brand before the Summer Olympic Games held in Los Angeles in 1984 (Crow and Hoek, 2003). That was the first time when an official sponsor title was awarded, preserving the trade exclusivity right.

Some authors extended the definition of ambush marketing, referring the notion not only to sports events. Mazodier and Chandon (2012) maintained that ambush marketing can be defined as “the deliberate attempt, by a non-sponsor firm, to falsely suggest an association with an event, person or idea, for the purpose of deriving a commercial benefit from that association, without incurring the costs of the acquisition of sponsorship rights in relation to that event, person or idea” (p. 194). Sometimes, ambush marketing is also perceived as a manifestation of guerrilla marketing. However, taking into account the dissertations presented in this article, such expressions should be considered too broad.

The literature on the subject identified manifestations of parasite marketing many years ago. Meenaghan (1996) indicated five common ambush strategies: sponsoring media coverage of an event, sponsoring a subcategory within an event and exploiting the investment aggressively, making a sponsorship-related contribution to the “Players’ Pool”, planning advertising that coincides with the sponsored event, development of other imaginative ambush strategies (pp. 106-107). A newer and more detailed typology of ambush marketing, which is adequate for the reality of the contemporary market, has been also elaborated. Chadwick and Burton (2011) identified eleven types of ambush, ranging from the direct attack of one organization on a rival to the unintentional association of a company with an event due to reputation or past marketing efforts. They named the strategies as follows:

- predatory ambushing, coattail ambushing, property infringement ambushing, sponsor self-ambushing, associative ambushing, distractive ambushing, values ambushing, insurgent ambushing, parallel property ambushing, unintentional ambushing, saturation ambushing (pp. 715-716).

In the context of using practices which belong to ambush marketing it is worth mentioning that the ambushers’ actions are very often facilitated by official sponsors themselves, who are not able to fully use the rights that they are entitled to, as well as they are incapable of emphasising the association

of their brand with a particular event. Apart from purchasing a licence, it is also important to plan communication actions in a well-thought-out manner and make sufficient financial outlays available to perform those actions (Gębarowski, 2009, p. 23). Some authors pointed out detailed methods which counteract the practices used by the ambushers – regarding both sponsors and organisers of events. Meenaghan (1994), for instance, proposed the following actions to be performed by official sponsors: pressurizing event owners to protect their events, linking event and broadcast sponsorship, anticipating potential competitive promotions, exploiting the sponsorship rights secured, resorting to legal action (p. 84-85). Instructions in respect of reducing the phenomenon of ambush marketing can be found in many other publications (Payne, 1998; Shani and Sandler, 1998; Pitt, Parent, Berthon and Steyn, 2010; Chase and Kurnit, 2010; Gombeski, Wray and Blair, 2011). However, regardless of the nature and the scope of taken actions, ambushers are becoming smarter. Competitors, determined to create a false association between an event and their product or brand, are now capable of doing so without infringing or breaching trademark or intellectual property laws (Farrelly, Quester and Greyser, 2005, p. 342).

Many authors paid a lot of attention to legal aspects of the analysed phenomenon. For example, Townley, Harrington and Couchman (1998) concentrated on the practical and legal prevention of parasite marketing (in the short term as well as the long term). Ellis, Scassa and Séguin (2011) examined the emerging trend of host countries using legislation to protect the Olympic brand and control ambush marketing. Legal issues connected with the Olympic Games and other huge sports events were also described by Grady, McKelvey and Bernthal (2010) and Scassa (2011). Johnson (2011) and Louw (2012), on the other hand, in their extensive elaborations, very precisely characterised legal regulations – regarding parasite marketing – which are in force in the United Kingdom and the European Union, as well as in selected countries from other continents (among others, in the USA, China, Brazil, Australia).

In the literature available so far, the attention has been devoted not only to legal determinants, but also to an ethical dimension of ambush marketing. Two of the first authors who described that problem were O’Sullivan and Murphy (1998). They identified and evaluated a range of possible actions to create more ethical commercial sponsorship.

An in-depth analysis of the phenomenon of ambush marketing in a different dimension – including psychological aspects – was carried out by Dalakas, Madrigal and Burton (2004). The authors focused on the motivation and the ability to process a persuasive communication in the context of using

parasite marketing. On the other hand, Pitt et al. (2010), in their article, referred to cognitive mechanisms behind successful ambush marketing.

The fact that the phenomenon has been discussed in separate, coherent elaborations proves that it has been gaining a considerable significance. For instance, in one of his latest titles, Nufer (2013) identified in detail a theoretic basis for ambush marketing and presented numerous examples of its practical use. The author set forth the consequences of ambushers' activity in respect of different dimensions, as well as the methods of preventing their actions.

Ambush marketing is a phenomenon that has been observed for almost three decades. However, so far, there have been rather few elaborations in the literature (contrary to other areas of marketing activity), which mainly implied the nature of parasite marketing and its various forms. Also, ethical and legal dilemmas of the analysed marketing activity were discussed. Furthermore, numerous examples of using ambush marketing were presented. There are, however, not many elaborations that compare the knowledge, resulting from the actions taken with regard to the same sports events, of official sponsors' brands with ambushers' brands.

## **Research methods**

In order to determine to what extent the official sponsors of the EURO 2012 and ambushers were associated with the European football championship, field research was conducted. It was carried out between the 17th of May and the 1st of June 2012, which was the period when broadcasting (exposure of) the commercials related to the analysed sports event increased. A method of collecting empirical data was a direct survey conducted with reference to a sample including 220 citizens of Podkarpackie Province. 49.5% of respondents were women, and 50.5% – men. The sample did not involve random selection (nonprobability sampling) and it was carried out using a method of typical case sampling.

A fundamental research-related problem referred to how to indicate the extent to which the entities that use ambush marketing were associated with the European Football Championship – the EURO 2012. Also, researcher wanted to examine whether image results achieved by ambushers could be higher than the results of the promoting actions taken by the official sponsors of the event. In this context, the following research hypotheses have been formed:

- H1: brands employing ambush marketing may be more often recognized as sponsors of a football tournament than brands possessing the status of official sponsors of the event.

- H2: being the sponsor of national teams or football associations may result in similar effects on a brand's image as being the official sponsor of the European Football Championship.
- H3: television is a medium most commonly associated with football-related advertisements.

The results of the field research are presented in the second part of this article. Moreover, the hypotheses were also verified in this part.

### **The 2012 European Football Championship and its promotion potential**

Fourteen national teams, which had earlier won the promotion through a qualifying competition, and the two host countries of the tournament – Poland and Ukraine, took part in the 2012 European Football Championship. The event was held for three weeks (from the 8th of June to the 1st of July), and 31 games were played in total. The tournament was organised on eight stadiums – four Polish (in Warsaw, Gdańsk, Poznań, Wrocław) and four Ukrainian (in Kiev, Kharkiv, Donetsk, Lviv). During the championship, the national teams were located at team base camps – 13 of them were accommodated in Poland, and only 3 in Ukraine. The EURO 2012 was begun with the opening game between Poland and Greece, which was held at the newly built National Stadium in Warsaw. The final was played at the reconstructed Olympic Stadium in Kiev (Spain and Italy participated in the match).

The effects of organising such a huge event, like the EURO 2012, can be examined on many planes, including the measureable ones, such as, among other things, the development of infrastructure, the quantity of tickets sold for the games, numbers of incoming tourists after the end of the tournament. Marketing results which are more difficult to specify and which have translated into an image of the brands that support a competition are also important; among them one can point out, for example, a change of image of the country which hosts an event or a level and nature of sports competition-related emotions. As far as the last aspect regarding sponsors and ambushers is concerned, the most intriguing issue is an interest in the event expressed by fans and journalists – both in the period that preceded the tournament and during the time it was held. An audience rate of broadcast matches is relevant as well. With regard to that issue, it must be noted that during the EURO 2012 there were approx. 3.2 thousand journalists from all around the world in Poland, and the broadcast rights were purchased by 53 TV stations (the matches were broadcast across Europe and in 32 countries from other continents). Over 652 thousand fans directly saw the EURO 2012 games that were played at four Polish stadiums. *Nielsen Audience Measurement* indicates

that an average TV audience of all tournament matches in Poland equalled to 7.5 million viewers, which constituted 51% of shares in the television market (<http://media2.pl/euro2012/93685-Euro-2012-w-TVP-Srednio-75-mln-widzow-122-mln-zl-z-reklam.html>). An important place for a promotion of brands that were official partners of the tournament were – apart from the mass media – stadiums and so called fan zones, where the official sponsors had exclusive rights to exhibit their graphic signs and sell products. The fan zones were constructed in the centres of largest cities, where crowds of fans gathered. Over 3 million people visited all Polish zones (in Warsaw, Poznań, Gdańsk, Wrocław and Cracow).

On the basis of these figures one can consider the European Championship to be the event which, apart from the Olympic Games and the Football World Cup, is the most vulnerable to using ambush marketing. This is because such championship has characteristics that increase the probability that the analysed phenomenon will happen – it is: a tournament, an international and media event (broadcast in many countries), which is eagerly watched by spectators and viewers, and is spatially concentrated (takes place at stadiums) and organised cyclically (Waśkowski, 2009, p. 10).

Organisers of huge sports events attempt to protect sponsors' rights and privileges. That was also the case with *Union of European Football Associations* (UEFA) and the EURO 2012. The future co-hosts of the tournament – Poland and Ukraine – had to accept the obligations set forth by the UEFA, which protect the interest of this organisation in respect of both legal and financial aspects. The Polish government undertook, among other things, to protect signs and other intellectual property rights indicated by the UEFA, as well as to prevent unfair marketing practices and forbidden actions during the sales of tickets. Furthermore, the tournament organiser itself registered specified trademarks – device (graphic) marks, word marks and combination marks. The prohibition of using some signs and phrases was introduced – among other things, graphic mark of the championship or a name “EURO UEFA 2012” (they could be used only under licence agreements concluded with the UEFA). However, even though such regulations were implemented, it was still legally permitted to use elements that had the association with football and the championship itself – that is, for example, expressions like “2012” and “championship”, national flags, symbols of a ball and stadiums, an image of fans.

## Marketing activities of official sponsors of the European Football Championship and other market entities' actions related to ambush marketing

Ten brands were the official sponsors of the tournament which was organised in 2012 in Poland and Ukraine: *Adidas, Canon, Castrol, Coca-Cola, Continental, Hyundai-Kia, Carlsberg, McDonald's, Sharp, Orange*. Apart from global partners, the EURO 2012 was supported also by domestic sponsors – in Poland, the following brands were involved: *Bank Pekao SA, E. Wedel, MasterCard*. Owners of the majority of those brands in the period that preceded the European Football Championship undertook intense and various promotional actions in order to inform fans about the fact that they were assigned an official sponsor status and to create association with this event. For example, *Coca-Cola* was the first brand, which a few months before the championship placed advertisements in the media referring to football symbols. *Castrol* used commercials with a slogan “We can do it”, which was a local adaptation of the global campaign “That calls for a Carlsberg!”. Another brand – *Continental* – was advertised by a short TV spot, which informed that it was a sponsor of the championship. *Hyundai* in its marketing actions presented a specially prepared – particularly on the occasion of the championship – price offer for cars. Fans and present football players of the Polish national team appeared in the commercials of *Orange*, and Jerzy Dudek (a former Polish goalkeeper) became a *Castrol's* ambassador, which was announced in commercials. A promotional campaign for *McDonald's* included a slogan “*McDonald's* Player Escort”, which was given a considerable media support. Jakub Błaszczykowski – the Poland's national team captain – was involved in the campaign. *McDonald's* project was a contest for children, in which the main prize was an opportunity to walk together with players onto a pitch just before the tournament games. With regard to *Adidas*, in the media there frequently appeared the information that its product called “Tango 12” would be the official ball of the EURO 2012. Many official sponsors organised contests, in which everyone could win a ticket for the EURO 2012 matches – such as *Castrol, Sharp* and *Orange*. Moreover, products contained in packaging with the graphic sign of the championship were introduced into the Polish market – for example, *Coca-Cola* and *Wedel*.

The biggest and the most expensive EURO 2012-related marketing project, implemented by a non-sponsor, was a campaign entitled “the Fifth Stadium”. The promotional campaign concerned *Tyskie* beer, and the idea behind it referred to support together and “create the biggest stadium all around the world”. During three months (from the beginning of April to the end of the championship), Polish Television (TVP) broadcast on its three channels 60 episodes of the series entitled “the Fifth Stadium”. The plot of

each three-minutes-long episode referred directly to the football subject and the EURO 2012. It was set in a pub, where a logotype of beer was presented (product placement was applied). Many communication channels were used in the campaign (ATL, BTL, ambient media), including, among other things, TV commercials, in which famous footballers took part: Luis Figo, Marco van Basten and Zbigniew Boniek. The “Fifth Stadium” project was continued also in 2013 when the Polish national team played further games.

Not only *Tyskie*, but also many other brands used advertisements (in all kinds of the media) in Poland to evoke associations with the EURO 2012. Such examples include the TV commercials of certain brands, which were broadcast in that time very often, for instance, *Danio* (the story was set on a pitch of a stadium), *Tesco* (a character from the commercial wore a scarf in the colours of the national team), *Hoop Cola* (a group of fans in front of the TV were shown). Also, advertising slogans followed a sports convention – for example, “We do not sponsor football stars! We do sponsor fans!” (*Media Markt*), “A masterly offer for the champions!” (*Stihl*). One of the ideas was to use a voice of a sports commentator – which was implemented by the owner of a chain of supermarkets *Lidl* into one of his television spots. It should be added that ambush marketing was manifested through the involvement of popular Poland national players by some non-sponsors. For instance, in promotion of *Lay’s* crisps and *Pepsi* drinks an image of Maciej Szczęsny was used, and Rober Lewandowski appeared in *Gillette* commercials.

Before the European Championship, many products in the colours of the national (red and white) flag and including football motifs were introduced to Polish shops. A universal image of a football (a white ball with black markings) was used the most frequently. Those signs were placed on the packaging of such brands as: *Tymbark* drinks, *Wawel* chocolate bars, *Sokołów* cold cuts, *Grafenwalder* beer. The signs mentioned above were very often complemented with slogans (for example, “Score prizes”) or product names introduced in the context of the championship (for example, “A fan’s sausage”, “A fan’s chocolate bar”). *Hochland* brand offered consumers processed cheese called “the red and white”. Even the products themselves adopted national colours – the owner of *Tic-Tac* brand launched red and white drops contained in single small boxes.

A separate group of brands, which were not official sponsors of the EURO 2012 – but many people still associated them with the tournament, were the brands that supported Polish national team under the agreements concluded before with the Polish Football Association (PZPN). The status of “Official Polish National Team Sponsor” was given then to: *Nike* (shoes, clothes and sports accessories), *Biedronka* (a chain of supermarkets), *Warka* (beer) and *Cisowianka* (mineral water). In promotion of these brands the signs reserved

by the UEFA were not used, yet the rights obtained as a result of co-operation with PZPN constituted the basis for promotion – among other things, the logo of the Polish organisation, as well as the image of players and national team kits were used (for example, Jakub Błaszczykowski acted in commercials of *Biedronka*). In the campaigns there were also slogans that referred to the tournament or football: “United in combat” (*Nike*), “We are all the national team” (*Biedronka*), “Official mineral water of the Polish national team” (*Cisowianka*). Warka brand ran a campaign entitled “To the anthem!”. It encouraged fans to visit a specially created Internet website and record their own performance of the Polish anthem. Furthermore, there was a bus that travelled across the country and served as a mobile recording studio.

The actions described above relate to ambush marketing carried out in respect of the association dimension, which entails creating associations of a brand with a sports event using diversified forms of marketing activity. Such actions, which are based on more or less direct relation to football, are difficult to eliminate by applying legal regulations. Association ambush marketing was carried out both in the period that preceded the 2012 EURO and later on – during the championship. There is also a more uncommon form of the analysed phenomenon – aggressive ambush marketing, which is slightly different. It can occur during an event and entails exhibiting the brand that is not an official sponsor within the area of a sports venue (it happens the most often through the actions performed by athletes or fans), as well as in the vicinity of it. Such conduct is usually subject to stringent restrictions that can be imposed by an organiser of the event. An example of this type of behaviour took place in 2012, when a Danish player, Nicklas Bendtner, right after scoring a goal for his team in the game against Portugal in Lviv, lifted his jersey to expose the logo of an Irish bookmaker company – *Paddy Power*. For his conduct, he was punished by the UEFA with a 100,000 euro fine and suspended for one national team match (the owner of the brand that was promoted by the player undertook to pay the levied fine).

### **Awareness of the EURO 2012 official sponsors’ brands and the entities that use ambush marketing – an empirical perspective**

The participants of the research were asked to point out the brands which – in their opinion – were the official sponsors of the EURO 2012 championship. However, the awareness of the sponsors was defined using the following two approaches – unprompted and prompted. Initially, the respondents were not suggested any answers and they were requested to indicate by themselves at most 13 sponsors (that was the exact number of the EURO 2012 supporting brands in Poland – 3 of them on the national level and 10 on the global

one). Subsequently, with regard to the research that could help determine the prompted recall, the same respondents were given a list of 36 items to point out at most 13 sponsors. They could choose from those names of the brands whose commercials, presented in the media at that time, based on the associations with football.

Concerning the first part of the research, the most frequently indicated brands were – *Coca-Cola* (62%) and *Biedronka* (58%). Other brands were chosen much more rarely, and they included such names as: *Carlsberg* (34.0%), *McDonald's* (31.1%), *Tyskie* (26.4%), *Warka* (25.9%), *Wedel* (23.1%), *Cisowianka* (19.3%), *Hyundai-Kia* (13.7%), *Orange* (11.8%). The percentage of indications for the other brands did not exceed 10%. As far as the part relating to unprompted recall of sponsors is concerned, *Coca-Cola* (85.6%) and *Biedronka* (70.4%) were also the most often repeated answers given by the respondents. On the other hand, a slightly lower level of indications was attained by: *Carlsberg* (67.6%) and *McDonald's* (64.4%). Subsequent places were occupied by: *Tyskie* (51.4%), *Warka* (50.0%), *Wedel* (46.3%), *Adidas* (41.2%), *MasterCard* (38.9%), *Cisowianka* (38%), *Hyundai-Kia* (36.1%), *Orange* (35.6%). Regarding other brands which were also covered by the research, unprompted recall did not exceed 30% (Table 1).

**Table 1.** Brands indicated as the sponsors of the UEFA 2012 Football Championship

Brand	Unprompted recall (N=212)*	Prompted recall (N=220)	Brand	Unprompted recall (N=212)*	Prompted recall (N=220)
Coca-Cola	62.3%	85.6%	PGE	2.4%	-
Biedronka	58.0%	70.4%	Samsung	1.9%	8.3%
Carlsberg	34.0%	67.6%	Lidl	1.4%	-
McDonald's	31.1%	64.4%	Media Markt	1.4%	6.5%
Tyskie	26.4%	51.4%	Naęczowianka	1.4%	-
Warka	25.9%	50.0%	Toyota	1.4%	-
Wedel	23.1%	46.3%	Canon	1.4%	7.4%
Cisowianka	19.3%	38.0%	Tymbark	1.4%	6.9%
Hyundai-Kia	13.7%	36.1%	MasterCard	0.9%	38.9%
Orange	11.8%	35.6%	Orlen	-	24.1%
Adidas	9.9%	41.2%	Gillette	0.5%	18.5%
Cappy	7.5%	-	T-Mobile	-	13.4%
Sharp	7.5%	21.3%	Continental	-	12.0%
Castrol	7.1%	19.4%	Red Bull	0.5%	11.1%
Lech	5.7%	-	BZ WBK	-	9.3%
Heineken	4.2%	23.6%	Tesco	-	6.9%
Pepsi	3.8%	17.1%	Hoop Cola	0.5%	6.0%

Lay's	3.3%	26.4%	Kinder	-	4.2%
Nike	2.4%	-	Real	0.5%	3.2%
Plus	2.4%	8.3%	PLL LOT	-	2.3%
DB Schenker	2.4%	-	Nivea	-	0.9%
Bank PKO SA	2.4%	9.7%	Hochland	-	0.0%

\* N is a number other than 220 due to the fact that 8 respondents did not point out names of the sponsors.

Research participants were also inquired about which mass media presented commercials that referred to football most often. The most frequent response concerned television (94.5%) and the Internet (73.4%). Other responses referred to: the radio (40.8%), billboards next to roads (28.9%), everyday newspapers (16.5%), magazines (12.4%), the cinema (3.7%).

The research also contained references to packaging – treated as a tool applied to evoke the associations with the European Football Championship. The vast majority – 86.8% – of respondents noticed football motifs on the packaging of diversified products. The brand which in this aspect was the most frequently indicated by the people under the research was Coca-Cola – 38.7% of respondents admitted that they saw the symbols referring to the EURO 2012 on labels of these drinks. Football-related elements were also noticed on the packaging of products offered by the following brands: *Wedel* (22.5%), *Tyskie* (17.8%), *Cisowianka* (9.9%), *Warka* (9.9%), *Carlsberg* (7.9%), *Biedronka* (7.9%), *Pepsi* (7.3%), *Lay's* (5.8%), *McDonald's* (3.7%).

Pursuant to the UEFA requirements, using the official championship logo in marketing actions was permissible only for the official sponsors of the event\*\*. Therefore it was reasonable to examine to what extent the symbol of the EURO 2012 was recognisable. The majority of inquired people (64.5%) claimed that they knew what the logo of the European Football Championship, organised in Poland and Ukraine, looked like. However, merely 46.8% of the sample under research were able to correctly describe the graphic sign of the tournament. The remaining 17.7% of the respondents defined it inappropriately (for instance, some of them mistook the championship logo for official mascots – the creatures called Slavek and Slavko). Every third person (35.5%) revealed that they did not pay attention to what the EURO 2012 symbol looked like.

## Discussion and conclusion

The results show that using ambush marketing practices in a well-thought-out manner can be effective and produce notable image outcomes leading to

\*\* The symbol of the European Football Championship in 2012 was a plant whose flower was a football, and on its both sides – two leaves (goblets) grew from the stem, which were in the national colours of Poland (red and white) and Ukraine (yellow and blue).

a situation when a particular brand will be strongly associated with a popular sports event. That is proved, first of all, by the case of the brands of beer – *Tyskie* and *Warka*. Their owners – *Kompania Piwowarska* and *Grupa Żywiec*, respectively – used original and large-scale promoting actions. As a result, *Tyskie* and *Warka* were indicated by half of the respondents as official sponsors of the EURO 2012 (in the part which defined the prompted recall). Slightly higher percentage of indications was attained by the real partner of this event – *Carlsberg*. One can therefore notice that the brands which use the actions considered as parasite marketing for the purpose of their promotion can be more recognisable than a brand of an official sponsor (which confirms the first hypothesis).

The participants of the conducted survey very frequently mentioned such brands as *Biedronka* and *Cisowianka*, which obtained the status of the Polish national team sponsors (they were not, however, the official sponsors of the tournament). Their intense promoting actions, which were based on the opportunities resulting from the fact that they were partners of the football association – including a utilisation of the PZPN logo and images of players, led to creating strong associations with the EURO 2012 (hence, the second research hypothesis is confirmed). *Biedronka*, a chain of supermarkets, was the second most popular indication – following *Coca-Cola*, and before all other official sponsors of the European Football Championship.

Basing on the results of the analysis, another conclusion can be reached – confirming the third hypothesis and indicating that the main medium used to form a relation between a brand and sports event, was television. However, a significant role in this respect was played by a marketing activity performed on the Internet. Moreover, the packaging of products constituted a relevant means of creating associations with the tournament.

Furthermore, the research revealed that in the period that preceded a huge sports event, in a mass of many advertisements referring to football motifs, it was difficult to be a recipient and distinguish the ambushers' advertisements from those advertisements which included an official event sign and information indicating that a particular brand is an official sponsor. In this context, it is worth noticing that merely less than a half of the research participants were able to correctly describe a graphic sign of the tournament organised in Poland and Ukraine.

The analysis of marketing actions taken in connection with the European Championship allowed to indicate main manifestations of ambush marketing, used in Poland in 2012. Ambushers' activity concerned, first of all, performance of the following actions in order to promote their brands:

- involving national team players – yet without showing them in official, reserved kits of the Polish team,

- using the symbols referring to the most popular sports discipline (it manifested through placing in commercials or on packaging of products, among other things, an image of: football, goals, pitches, stadiums, etc.),
- using an arrangement of white and red colours, which were very common during the championship in the public area and created the association with the national flag,
- referring to fans, who were deeply emotionally engaged in experiencing the championship (commercials based on the scenes which presented people who supported the national team).

It must be mentioned that the research, whose results have been presented in this article, was limited in its nature. However, it can be considered as an introduction to large-scale examinations that will be carried out in the periods preceding future huge sports events. With regard to the subsequent examinations, one should make an attempt to specify to what extent the actions perceived as parasite marketing influence a level of product sales achieved by ambushers. It is also vital to identify the factors that determine the effectiveness of marketing based on “stealing associations”, and, what is more relevant, to decide whether the analysed form of marketing activity – due to ethical and legal reasons – should be considered a permissible technique of fighting for a customer in the extremely competitive contemporary economy.

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### **Abstrakt (in Polish)**

*Aktywność zaliczana do ambush marketingu (parasite marketingu) jest coraz szerzej podejmowana w odniesieniu do kolejnych, dużych wydarzeń sportowych. W związku z tym w artykule przeanalizowano zakres wykorzystania tej formy promocji w okresie poprzedzającym mistrzostwa Europy w piłce nożnej w 2012 roku. Odniesiono się do Polski – kraju będącego współgospodarzem tych mistrzostw. Na polskim rynku właściciele wielu marek zrealizowali działania mające na celu „kradzież” efektów wizerunkowych, które powinni uzyskiwać tylko oficjalni sponsorzy wspierający tak duży turniej (uznawany z jedną z trzech największych imprez sportowych na świecie – obok letnich igrzysk olimpijskich oraz mistrzostw świata w piłce nożnej). Cel artykułu jest dwojaki. Po pierwsze, opisano koncepcje promowania wybranych marek (bazujące na związkach z EURO 2012), identyfikując zakres wykorzystania form ambush marketingu w odniesieniu do polskich konsumentów. Po drugie, zaprezentowano wyniki badania obrazującego różnice w postrzeganiu zarówno marek będących oficjalnymi sponsorami, jak również tych – którym można przypisać zastosowanie ambush marketingu.*

**Słowa kluczowe:** marketing sportowy, sponsoring, ambush marketing, UEFA EURO 2012.