

Sustaining tourism SMEs

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INTRODUCTION

In the 1960s the European Commission drew attention to the fundamental contrasts between the regions in the Community. However, it was not until the 1970s that a Common Regional Policy (CRP) for the Member States was implemented and financed. The objectives of the CRP were to 'create a greater convergence between the economies of the Member States and to ensure a better spread of the economic activities throughout its territory'. In spite of many efforts, towards the end of the 1980s, in the run up to the adoption of the Single European Act (1987), there were still major disparities as measured by GDP per head. As a result, a commitment to economic and social cohesion was formally written into the Act. Changes in production technology and industrial organisation in the international economy since the 'oil crisis ridden' 1970s (Curran and Blackburn, 1991), which gave rise to the questioning of the 'Fordist' production era of economies of scale that had been so influential in the development thinking of governments, has prompted an expanding interest in the small firm that is flexible in terms customising products to customers, adapting production techniques to the specifics of place and networking. Its proponents see such a construct as offering sustainable models for the future development of outlying economic areas, since the emphasis is on the need to build regional autonomy and to foster the collaboration of industry, employees and the public sector at that level.

Thus a critical aspect of the progress to regional convergence is the position of SMEs, which, in a European-wide context, are defined as a companies with a workforce less than 250 employees, a definition that embraces quite readily the majority of the tourism businesses in Europe, for micro-businesses (less than ten employees) form the largest division within the overall category of tourism SMEs (Thomas, 2000). Disadvantaged regions within the European context usually have a strong representation of micro tourism firms and in this respect tourism has received increasing amounts of regional aid under successive EU programmes.

EUROPEAN FUNDS

Currently, the most common forms of multinational assistance for SMEs in the Union are the Structural Funds, specifically the European Regional Development Fund (ERDF). Multinational assistance for SME development in Eastern Europe and the Commonwealth of Independent States within the Russian sphere of influence is the province of the European Bank for Reconstruction and Development (EBRD). The ERDF is focused mainly on productive investment, infrastructure and SME development in less favoured regions, and holds the bulk of EU money for regional aid. Although investment subsidies continue to be the main instrument of regional policy in Europe, the new approach, commencing in the late 1980s, to the use of the Structural Funds for regional development introduced greater flexibility in the implementation process (European Commission, 1995). In line with the new thinking on SMEs, there has been a switch of emphasis from large automatic grants to attract inward investment projects, towards small firms and indigenous development; something that has been carried over from the last Community Initiatives programme (1994 - 1999) into the current one (2000 - 2006). Thus investment and operating subsidies given by European governments, whether general schemes or specific to tourism, have been supplemented by technical support, in order to tailor assistance to the needs of the individual firm (Storey, 1994; Wanhill, 1997). The latter is difficult to deal with at central government level and the tendency has been to devolve powers to local government and a range of agencies with specialist knowledge of the type of firms and the economic environment in which they operate. This, of course, does not exclude subsidies to major inward investment projects and the major role they can play in regional development. Thus the debate between local versus externally driven development will continue, as it has its own dynamics in relation to changes in technology and communications, which in turn influence local area competitiveness.

TOURISM SMES

From a tourism perspective, the promotion of SMEs blends well with models of community tourism development (Inskip, 1991; Murphy, 1985) and the emerging literature on implementation, in terms of marketing (Go, Milne and Whittles, 1992), organisation and stakeholder relationships (Jamal and Getz, 1995; Reed, 1997) and local enterprise (Wanhill, 1996). However, while it is possible in developed countries to give a higher political priority to local investment, for many LDCs (but not all) the options between local and externally driven development may not be available.

Putting aside the fact that in many remote and rural areas, as well as urban locations, tourism is seen to be an important part of the economic agenda, the arguments advanced in favour of targeting small tourism businesses are similar to those for SMEs in general, namely: their ability to create new jobs at a time when major operators are downsizing; improvements to industrial relations and working environment; diversified and flexible structure; stimulating competition, leading to an energetic enterprise culture; and their creativity in introducing new service products. They can also be part of the output experience for the tourist through their ability to effect introductions to their neighbours, advising visitors about itineraries, providing narratives on local history, culture, folklore and landscape, as well as playing an active role in the advancement of the community. On the other hand, the practical experiences of government tourist agencies and research studies have shown that, while there are good practices which can be held up as exemplars, there are a number of weaknesses occurring in tourism SMEs that can constitute barriers to successful tourism development.

1. SUPPLY DOMINATED BY FAMILY BUSINESSES

Shaw and Williams (1990), in their study of Cornwall, noted that family enterprises are of two kinds: first, the self-employed who use family labour, have little market stability, low levels of capital investment, weak management skills and are resistant to advice or change. Second, the small employer who uses family and non-family labour, has a better business foundation, but can share similar behaviour patterns to the self-employed and are therefore equally vulnerable. The vulnerability of tourism SMEs is also highlighted in the work of Morrison, Rimmington and Williamson (1998). They conclude that such businesses are managed essentially by their owners, often married couples (Getz and Carlsen (2000) use the term ‘copreneurs’ to describe this kind of family business), which have negligible market power to influence purchases and sales. They are most likely to have a substantial portion of their wealth in the firm and their incomplete management expertise is no help in dealing with a difficult business climate in respect of securing finance and penetrating the market.

2. LACK OF ENTREPRENEURIAL DRIVE

From a sociological perspective, business motivations have been found to encompass a spectrum that runs from commercial goals and policies to lifestyle intentions (Foley and Green, 1989; Hornaday, 1990). The lack entrepreneurial drive is a consequence of non-economic motives, such as ‘the way of life’, living in an attractive area, low cost of living, etc., that drew the owners into the occupation in the first instance. This is common with artisans and craft people working in tourist areas. It is not surprising therefore that local bank managers operate a ‘rule of thumb’ to the effect that about one third of SMEs are successful, one third are surviving in a struggle that could go either way and the remaining third should not be in business in the first place!

3. LIMITED BUSINESS SKILLS

Tourism SMEs often have severe limitations in respect of marketing, delivering quality, price policy, cost control and re-adjustment ability. Marketing may simply consist of one or two advertisements in tourist brochures whose effectiveness is unknown. Often, there is a profusion of literature, which does no more than ‘clutter’ the market place so that its impact is dissipated through internal competition. The high exit or marginal survival levels in the tourism sector is an indication of the magnitude of the problem. They act as are ‘price-takers’ in the manner of the perfectly competitive economic model because they are unaware of market trends. It appears that transactions and information costs are taken

as major barriers to obtaining knowledge of their demand curves. This forces them to behave in a cost-orientated manner in what is a market-orientated industry (Kotas and Wanhill, 1981). Their ability to track the market is limited to their weekly booking patterns and year-on-year sales. When the market falls they do not have a pro-active stance, unlike the larger operators who are able to get back into the market place with improved product offers. They resort to cost cutting, particularly staff hours, with owners and family labour putting in more time to make up the difference. They may often have little empathy in managing staff or dealing with customers and much of management time is spent ‘fire fighting’, rather than developing the business.

4. SHORTAGE OF FINANCE

It follows from the above that finance becomes an issue because tourism SMEs do not engender confidence in lenders. In addition, they are susceptible to slumps in property values, as in many cases their house or business premises have been put up as collateral on their bank overdraft or loan. Commercial banks are looking to finance business expansion with the intention of bringing the business to a market flotation rather than ‘a way of life’, which leaves tourism SMEs with high cost finance from the retail banking sector. This also has relevance to public funding mechanisms, as they tend to lay stress on financial performance, which may demand a level of commitment that owner-managers with lifestyle goals are unwilling to provide. In part evidence of this, Storey (1994) notes that most SMEs tend to remain small, implying that growth is the exception and not the rule.

5. TENDENCY TO ‘FREE RIDE’

The ‘free rider’ issue is endemic in tourism because the product is produced by different economic agents, with completely different functions, resources and knowledge base. All produce a part of the whole, but profit is distributed by the consumption process, which is divided unevenly between producers. Successful museums, exhibitions and other public events might draw tourists to a locality, but even if charges are made, they are rarely in a position to cover production costs. Similarly, tourists may be attracted by well-maintained scenic or historic sites, culture, urban life, interesting architecture, coastal zones, harbour areas and supportive infrastructure. These are the outputs of organisations (frequently the public sector or charitable trusts) that are not always in a position to commercialise the result. The private tourism sector capitalises on these public or merit goods by selling a package that they have only partly produced and thereby reaping the economic rent for themselves. Given the low costs of entry, there is an incentive for private firms to exploit the rent that is obtainable from the public provision of tourism goods, without regard to sustainability and re-investment in the overall tourist product and their own responsibilities as stakeholders in the destination. This, in turn, may diminish the attractiveness of the area and lead to demand falling away - the familiar resort life-cycle analysis. In the tourism sector, this is known as ‘milking the product’ and has been a common experience of those cold water resorts in Northern Europe that have failed to adapt to changing circumstances.

POLICY OBJECTIVES FOR TOURISM SMES

Some time ago, the Commission (1995) identified three objectives for governing EU involvement in the field of tourism:

- Supporting improvements in the quality of tourism by taking greater account of the trends in tourism demand;
- Encouraging the diversification of tourist activities and products through improving the competitiveness and profitability of the industry;
- Incorporating the concept of sustainable and balanced growth into tourism by giving due regard to the cultural and environmental dimensions of tourism.

These objectives have a wide level of support and it may be thought that the learning process of market interaction might lead to some regulating structure that can overcome identified weaknesses in the industry, thus ensuring that businesses remain economically viable, while environmental and other free

goods are conserved and maintained, so that the basis of the tourist industry is sustained. In practice, seldom is this the case: evidence suggests that only government intervention will facilitate this to happen, because of the high degree of fragmentation in the industry and asymmetric information flows. Thus market mechanisms will not create socially optimum solutions. Externalities play a very important part in the expansion of tourism but not in individual private businesses, hence a practical approach to development often becomes one of legislative control and the provision of public money and technical support to channel the energies of the private sector in directions that are both sustainable and profitable.

ECONOMIC PERSPECTIVES

The theoretical aspects that should underpin the public sector intervention process may be drawn out from the standard business model. . Let Π , net profit before tax, so that

$$\begin{aligned}\Pi &= R - C \\ &= R - C^* - C^k\end{aligned}\quad (1)$$

where R is revenue and the total cost schedule C is divided into the operational cost C^* and the amortisation of the capital investment C^k . This is shown on Figure 1: R is the revenue line and CC the total cost schedule attributable to running the business in a given year. The line C^*C^* represents the cost of operation excluding the provision for capital recovery, the difference $CC - C^*C^*$ being C^k .

Decomposing R in equation (1) into price P and the number of visitor days V , and C^* into a variable component MV , where M is the unit variable or marginal cost, and a fixed sum C_f^* , then

$$\Pi = PV - MV - C_f^* - C^k \quad (2)$$

Assuming that price is given by the market and is not under the firm's control, then taking differentials of equation (2) gives

$$d\Pi = PdV - MdV - VdM - dC_f^* - dC^k \quad (3)$$

Equation (3) allows the outcomes of various policy options to be separated into three distinct categories as well as combinations:

Option 1. Reduction in capital costs

$$d\Pi = - dC^k \quad (4)$$

Option 2. Raising turnover

$$d\Pi = (P - M)dV \quad (5)$$

Option 3. Reduction in operating costs

$$d\Pi = - VdM - dC_f^* \quad (6)$$

where VdM is the reduction in variable costs and dC_f^* represents savings in fixed operating expenses.

An important distinction to make is that between 'feasibility' and 'viability'. At a level of V_2 visitor days the business is feasible, since it produces a surplus BC over C^*C^* , but it is not viable because there is a gap AB in the funds available to service the capital, as the business falls between CC and C^*C^* . To the left of D the business is neither viable nor feasible as it falls below C^*C^* , whereas the converse is true at point E , because the revenue line now lies above CC . If intervention policy is discretionary rather than mandatory, then the area of economic interest for tourism authorities should normally reside between the two cost lines where the business is feasible but not viable. The rationale for this is that viability depends upon the cost of capital, which has a floor rate that is a macroeconomic variable set by the central bank. To assist a business operating at a level to the left of D would likely

involve the authorities in providing continuous support and might just be ‘throwing good money after bad’. Beyond point E, the business is viable and has no need of public assistance: this has been termed (Wanhill, 2000) the ‘additionality’ rule, which says that public assistance will only be given if the business or project would not go ahead without it. Hence, the emphasis on discretionary investment incentives to ensure that firms receive what is sufficient for their needs and no more, thus allowing the public sector to earn ‘best value’ for the money that it disperses to the private sector.

On the assumption of the desirability of the firm in terms of the overall tourism development strategy, the tourism authorities must have as a target the viability of the firm after assistance has been given. To do this they have a number of options: they could implement capital incentives, commonly ‘substitute’ equity in the form of grant aid or soft loans (Wanhill, 1994), so as to move CC down in a vertical direction to B, until the enterprise becomes viable at V_2 visitor days; reformulate the business plan and provide technical support to facilitate market expansion to raise turnover, so as to drive the business outwards towards the break-even point E on the revenue line R at V_3 visitor days; reduce operating costs directly by subsidising inputs or assist in implementing efficiency/productivity measures, so as to drive down C^*C^* and bring the firm to a break-even at B; or ‘hedge’ their position by trying to implement a range of instruments – in other words, a general action programme for SMEs.

ACTION FOR TOURISM SMES

In order to implement regional strategies at the micro-economic level and address the many issues that were raised earlier, so as to improve the competitiveness of the tourism economy, there is a case for countries to have an ongoing action programme for tourism SMEs. In the light of the importance being attached to indigenous development at the community level and given that many small tourism businesses are trading marginally and have great difficulty in planning ahead and investing, then there are a number of activities that are likely to suggest themselves as priorities in for such a programme.

1. IMPROVING COMMUNICATIONS CHANNELS

Technology is continually making it easier to customise, package, book and price the product for the visitor. Global CRS networks have made it easier to book a foreign trip (with unequivocal price transparency) than a domestic holiday and have enabled the large players to switch to highly sophisticated database marketing to communicate their product offers to potential customers. These initially started in the 1960s as closed internal reservation systems for airlines and it was only in the mid 1970s that they were progressively opened up to other airlines and travel agents. Hotel chains and car rental companies were added later as these systems became more interconnected through a series of mergers, acquisitions and alliances.

Global CRSs are targeted at travel intermediaries who give priority to the security of the booking, instant confirmation and the certainty of receiving commission (Beaver, 1996; Buhalis, 1998); thus the majority of suppliers, unless they are part of a tour operators itinerary at the destination, are excluded (admittedly in some cases on their own volition by their refusal to pay commission) from selling either at home or abroad through the modern communication and reservation systems of the travel trade. Instead they resort to traditional methods of promoting themselves through marketing consortia, travel guides, tourist board guides and brochures, newspaper supplements and magazines, leaflet distribution, local media and ‘word-of-mouth’ in order to place their product in the market place and take bookings. This situation is not so serious in terms of domestic tourism where the general pattern is still one of customers using local knowledge to make their own travel arrangements, but it does mean that SMEs are missing out on their share of international visitors (Buhalis, 1999).

On the other hand, the World-Wide Web is growing fast and has the potential for direct holiday information, direct bookings and consumer feedback. In addition, CRS networks are gradually becoming open to the general public through Internet portals, thus giving potential visitors the

opportunity to adjust their trip to their specific needs. Internet access to airline reservation systems has also opened new possibilities for discounted last-minute air travel with established carriers and has also seen the rise of low cost airlines such as Ryanair and Easy Jet, who are not on the global networks.

For a number of years there has been government interest in creating computer-based national reservation systems. National Tourist Administrations (NTAs) in Europe have already been operating 'Holiday Hotlines' and out-of-hours telephone information. In many areas, local Tourist Information Centres (TICs) offer a booking service to personal callers, though still very much a manual system requiring TIC staff to telephone accommodation establishments to check availability. In Britain, the TIC network was used to develop the 'Book a Bed Ahead' scheme for the independent traveller touring different parts of the country. However, as more and more bookings are being made electronically, what is ideal and in the spirit of Option 2 above, is a fully networked computerised reservation system, which will generate for SMEs the additional benefits of:

- A database to assist with direct mail campaigns;
- Assisting in monitoring occupancy;
- Providing information on source markets;
- Evaluating improvements to packaging and pricing to meet changes in demand;
- Enhancing sales promotion through recommendations from satisfied visitors.

The key to penetrating the source markets from the regions lies in using the CRS to link suitable accommodation to a range of 'things to see and do', so what is being sold is a complete holiday, not just accommodation. Although desirable, this does not necessarily mean complete packaging of other products: it would be an improvement just to use complementary suppliers in marketing and to couple this with the provision of good information on site. Beaver (1996) goes further and recommends a complete destination management system that acts as a neutral facilitator to the tourist industry.

Implementation of such a system via the NTA or regional tourist association is no easy task: in the past, proposals at the local level have foundered on the unwillingness of SMEs to give commission, to make booking allocations available, competitive jealousies concerning the equity of how bookings will be distributed by TIC staff and arguments over classification and grading, an essential ingredient for the inclusion in such a scheme, as in all tourist bureau publications. Such experiences suggest that a computerised destination management system cannot be implemented or sustained without a great deal of public sector involvement, particularly if the Commission's ideal of Europe as a single destination is to be realised (Commission, 1995). Examples of such systems can be found in Austria, Denmark and Switzerland, but it appears that the most likely route is for NTAs to act as facilitators to bookings through provision of information on their Web Sites and links to agencies providing reservation services.

2. RAISING THE LEVEL OF MARKET INTELLIGENCE

Wood (2001) observes that marketing information systems used within SMEs are largely confined to internal data that are supplemented by customer surveys and informal investigations about local competitors. External data tend to be drawn from personal contacts and episodic monitoring of a miscellany of sources such as trade associations and magazines. Information technology is not greatly used to aid information gathering, analysis and management. Yet raising the level of market intelligence is essential if SMEs are to plan their business and target their marketing expenditure more effectively.

In order to move SMEs from a cost-orientated stance to one that is proactive in the market place, there is a need to create an interactive database, which can be accessed from PC networks, to research and

analyse market trends. Specifically, small businesses need tailored printouts to:

- Understand their customers' needs and profile;
- Monitor the effectiveness of their marketing effort;
- Understand customer satisfaction levels;
- Monitor sources and times of bookings to establish patterns;
- Compare their demand position to the wider picture.

Wood advocated the use of the Internet as a low cost way of gathering market intelligence, though this did not find favour with his respondents.

3. UPGRADING STANDARDS

There is always the danger that investment support for SMEs is confined largely to physical capital, that is Option 1, whereas investment in human capital (Option 3) may be equally, if not more, important. The latter is, for example, a particular aspect of Swedish regional policy, in which a central element is the diffusion and spread of knowledge in order to stimulate innovative development at the local level (NUTEK, 1994). Nilsson (2000) and Nilsson, Petersen and Wanhill (2003) report on a project in Arjeplog, northern Sweden, where the implementation of Options 2 and 3, as well as providing for investment security, was through investing in the human competencies of the owners of the businesses. This was done by focusing upon motivation and business education for tourism in order to expand the participants' ability to utilise and adjust to the changing business climate, thus raising economic efficiency. It was not simply giving consultancy advice, because it was attempting, through long term involvement, to bridge the divide between commercial and lifestyle goals by demonstrating a substantial degree of complementarity rather than mutual exclusiveness between the two objectives, namely, that a better business organisation can give rise to a better lifestyle.

In general, activities that may be considered to raise standards and improve competitiveness are 'benchmarking', sharing best practice and investing in the skills of both the management and labour force. Because of generally low skill levels and long hours of work, many owners and managers of small businesses have limited knowledge of industry standards of good practice. They may be unaware of the levels of business being achieved by similar establishments, how much repeat custom that is being generated, profitability ratios and so on. The aim of benchmarking is to help SMEs achieve basic standards of good working practice and be credited for this achievement. Exemplars are then communicated to others through trade association meetings and journals, and similar activities undertaken by the local tourist bureau. Subject areas that are candidates for benchmarking are:

- Management and financial accounting methods for improving profitability;
- Employment and development of staff, including working conditions and training;
- Quality control systems;
- Health and safety procedures;
- Equal opportunities;
- Involving staff directly in the business;
- On-site tourist information.

Benchmarking will need to be accompanied by the assessment of training needs and the development of training programmes, including national customer care schemes such as 'Welcome Host' or 'Super Host' (Sweeney and Wanhill, 1996). This is part of the process of improving standards, thereby increasing 'value for money' and enabling operators to raise prices for a better quality product that is effectively marketed. Quality assurance is developed through verification schemes, which are normally run at the national level via the NTA, and the entry of new operators into the market to displace those

who do not have the means or the skills to come up to the required level. While raising the skills base can create barriers to entry, this may be regarded as beneficial if it serves to improve the products of existing firms and reduce the exit rate.

4. STRUCTURING SMALL BUSINESS FINANCE

Business finance and the ensuing funding package are in essence the result of a strategy to spread the risk inherent in any scheme in such a way as to reconcile the divergent views of borrowers and lenders. In this respect, investment incentives (Option 1 and 3), besides being used to attract new business ventures, may also have the important catalytic effect of defining an acceptable risk strategy. There are essentially three sources of finance:

- Equity or share capital;
- Debt or loan capital;
- Investment incentives.

The most important origin for such finance is domestic capital formation, which implies that effective financial institutions are necessarily a major driving force in a country's development. They are the key channel between savings and investment, and their efficiency is of great significance to economic growth. Foreign capital also has a critical role to play: in addition to the money flows, it often brings with it higher technical standards in terms of market regulation, disclosure of information and more market services in the shape of financial instruments.

The issue as to whether the public sector should be involved with funding SMEs depends on the effectiveness of existing financial intermediaries. A common argument is that where there is a sophisticated capital market, the task of the state is merely to set the right economic climate via the appropriate macroeconomic controls. Yet most countries have some form of small business schemes and special consideration may be given to tourism on the basis of the complex nature of the product and the fragmented nature of the industry. An examination of Table 1 will show that for most Member States within the EU the mechanisms for tourism are already there. What is needed is an element of fine tuning to ensure that prospective investors only have to deal with one organisation and that the rates of grant and the terms on which loans are made, are compatible with the needs of SMEs.

The most common themes to emerge from investigations into small business finance (Stanworth and Gray, 1991) are:

- The establishment of small business loan funds, supported, as necessary, by investment incentives, to bridge the gap in the availability of medium to long term finance that exists between the retail and commercial (investment) banking sector;
- The creation of a small business advice or extension service.

Small business funds may be channelled through the existing banking system with the appropriate state guarantees and agreements as to terms and conditions. These may even come from international institutions, thus the EBRD has arrangements for providing loans and making equity investments in approved domestic financial intermediaries (within Eastern Europe and the Commonwealth of Independent States) for onward lending to SMEs. Alternatively, funds may be made available through a Development or Investment Bank, which is usually a government-financed institution that has the ability to offer loans and/or buy equity in new ventures. Given the objective is one of encouraging the private sector, then there are usually restrictions on how much of a single investment's equity such a bank can hold (varies from minimal to 30%), with arrangements for selling after 8-10 years, once the business has reached financial stability.

When considering the variety of investment incentives that are available in tourism, it is possible to draw a broad classification along the following lines: financial incentives, such as reductions in capital and operating costs and those designed for investment security (Wanhill, 1994). Incentives to reduce capital costs may include: capital grants, 'soft' loans, equity participation, provision of infrastructure, specification of land on concessional terms and tariff exemption on construction material. For small businesses grant aid is often the most appropriate as they usually have substantial debt already and are in no position to lever in more. To improve operating viability governments may offer: direct and indirect tax exemptions or reductions, a labour or training subsidy, subsidised tariffs on key inputs such as energy and special depreciation allowances. Investment security is not normally an issue in the developed world, but is relevant to many LDCs for an industry that is very sensitive to the political environment and the economic climate.

Finally, it is argued that it would be difficult to meet the strategic objectives laid out by the EU without the creation of a small business advice or extension service. The fragmented structure of the tourist industry imposes transaction costs that are too high for the normal workings of the market mechanism to bring about the necessary changes, except at the margin. Trade associations are unlikely to have the legitimate authority and support to create such a service on their own. It follows that such a service has to come from a government created body, usually the NTA, or, at a more local level, a partnership formed between the local authority or municipality, the tourist bureau and the various trade associations. Such actions would be an appropriate step for those regions bidding for European Structural Funds to develop their tourism. Where the tourist authority facilitates grants or loans in support of SMEs, an audit of the business is usually common practice and support should be conditional on the essential benchmarks and verification systems either being currently in place or in place at the end of any sponsored investment.

A small business agency may also take on a co-ordinating role for funding sources: SMEs can obtain sponsorship money from outside organisations, particularly when they have charitable objectives. This money can come from commercial organisations, which are looking for public relations benefits, and also other charitable institutions. Of recent years, a major player in the UK has been the Heritage Lottery Fund. However, it is also possible to source equity funds through institutional contacts, lawyers, insurance brokers, or business 'angels'. The latter are normally high net worth individuals with substantial business experience participating in informal venture capital networks. In the UK, for example, there is the National Business Angels Network (NBAN), which estimates that there are some 20,000 angels, investing up to £500,000 in developing a particular business, with an average of £25,000 (most investing less than £50,000) on a single deal.

CONCLUSIONS

Of critical importance to the progress of tourism is the position of small and medium tourism businesses, which dominate the operational aspects of the industry and can act, in many ways, as barriers to sustainable improvements of the product. The fragmented nature of the industry at this level, including a wide range of very disparate firms, requires a pro-active role from public bodies in the form of a co-ordinated tourism strategy, in order to give a sense of direction and engender confidence through local community involvement. More than this, what is outlined here is an action programme targeted at SMEs to improve their quality, diversity, competitiveness and profitability, within the context of sustainable development to account for the cultural and environmental aspects of tourism. Specifically it is argued that such a programme should be structured around the following priorities: improving communications channels; raising the level of market intelligence; upgrading standards; and structuring small business finance.

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BIOGRAPHICAL SKETCH

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Figure 1 Viability of Tourism Projects

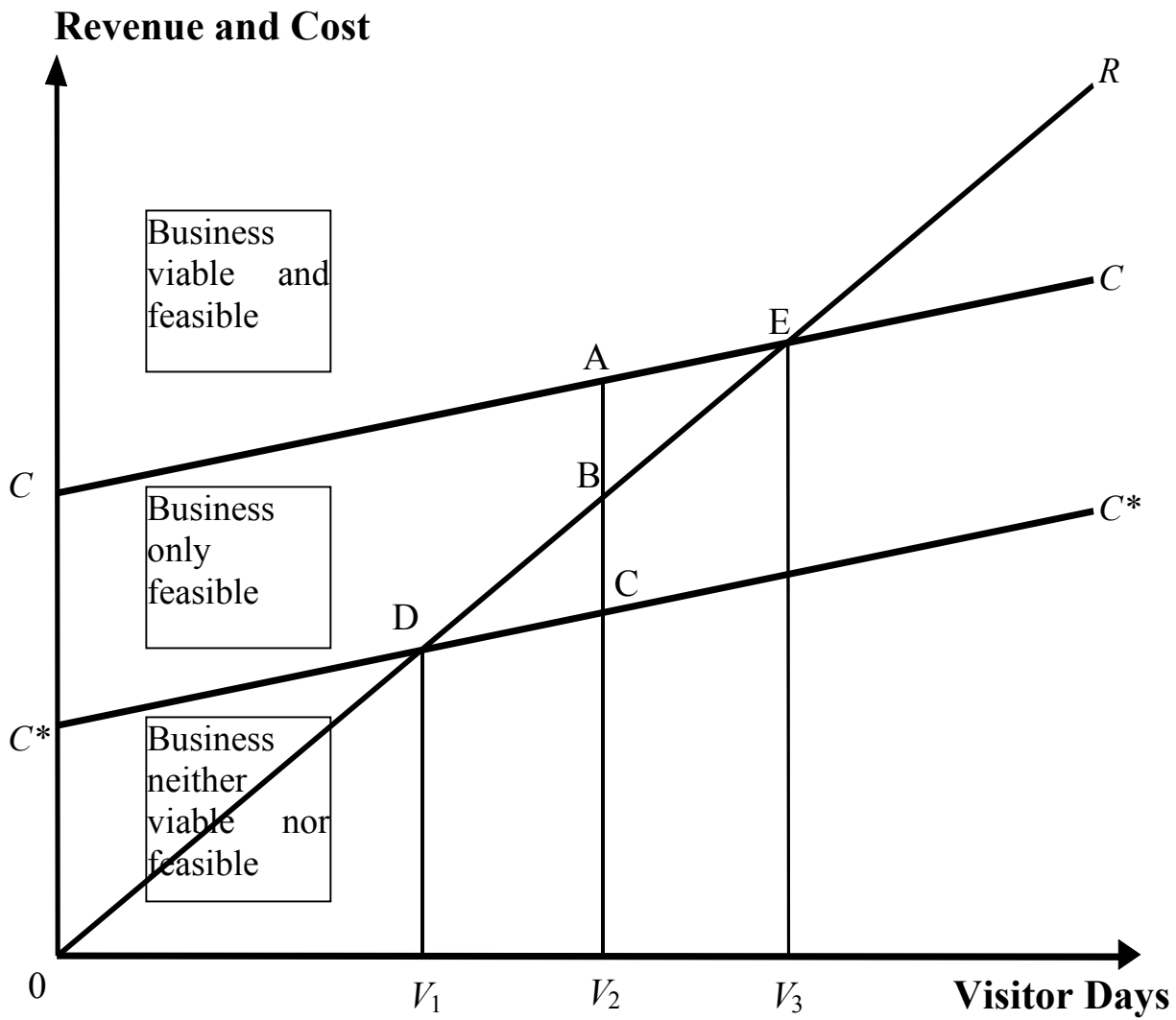


Table 1 Investment incentives in the European Union Tourism Industry

Country	Special to hotels and tourism	Financial Capital	Incentives Operating	Investment Security
Austria	Yes, more favourable than manufacturing	Grants and soft loans	Reduced VAT	State loan guarantees
Belgium	Yes	Grants and soft loans	Indirect and direct tax reductions	
Denmark	No, general schemes only			
Finland	No, general schemes only, save for VAT		Reduced VAT	
France	Yes, manufacturing similarly provided for if to do with regional development	Grants and soft loans	Indirect tax exemptions/ reductions, special depreciation allowances	
Germany	No, general schemes only			
Greece	Yes, wide range of incentives for tourism	Grants, soft loans and interest rate subsidies	Indirect and direct tax exemptions/ reductions, special depreciation allowances	
Ireland	Yes	Grants	Special depreciation allowances	
Italy	Yes	Grants and soft loans	Indirect and direct tax exemptions/ reductions, special depreciation allowances	
Luxembourg	Yes	Grants	Indirect and direct tax exemptions/ reductions	
Netherlands	Yes	Grants and soft loans	Reduced VAT	
Portugal	Yes, tourism particularly favoured	Soft loans and interest rate subsidies	Indirect and direct tax exemptions/ reductions, special depreciation allowances	
Spain	Yes	Soft loans principal form of aid but grants also available	Indirect tax exemption	
Sweden	Yes, but only for regional development	Grants and soft loans	Reduced VAT	
UK	Yes, but only in parts of the UK	Grants principal form of aid; occasionally soft loans		