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# Some Problems of the Micro, Small and Medium Enterprises in Albanian Holiday Hotels

Evis Kushi
Xhuvani" University, Elbasan, Albania
eviscaku@yahoo.com

Enkela Caca
Eqrem Çabej" University, Gjirokaster, Albania
ebabaramo@yahoo.com

***Abstract***
*This paper provides an analysis of the main characteristics of MSMEs in this sector and identifies the existing problems using data from 83 holiday hotels during summer 2006 in Durres region, which is the major sun-and-beach segment in Albania. The results of the survey are in line with the general economic situation in Albania which is characterised by the dominance of micro and small-sized enterprises, mainly family businesses. More specifically, the majority of the holiday hotels in the sample (82 per cent) are micro and small hotels and only four per cent are big hotels. One of the main problems arising from this situation is that hotels of this size match only the demand of individual clients or small groups of tourists and are generally not able to work with big tourist groups organised in package tours by the western operators. Finally, this paper provides interesting recommendations for policy makers, public authorities and hotel managers in order to identify the priorities for the development of the holiday hotels sector and tourism in Albania.*

***Key words:*** *MSMEs, holiday hotels sector, survey.*

## 1. INTRODUCTION

Tourism is considered as one of the immediate priority industries in which support programmes can be implemented with immediate effect. It generally provides concrete and strong trading opportunities for all nations, regardless of their level of development. Before the democratic changes of 1990 the former communist regime did not allow the tourism industry in Albania to become established. While the country has a tradition of domestic visitation, its venture into international tourism has only been possible since the fall of communist regime in 1991. After many years of isolation, Albania is now changing rapidly toward a free market economy, offering many opportunities to become a new tourist destination in the Mediterranean. As for many developing countries, tourism in Albania is a fundamental industry of the economy and the holiday hotels sector constitutes the main sector of this industry (Bank of Albania 2007). However, as in most countries of the world, the vast majority of Albanian tourism enterprises, and specifically holiday hotels, fall into the category of MSMEs (Kushi 2008). Because the holiday hotels sector is dominated by MSMEs, an analysis of their main characteristics and the identification of the challenges they face are thus critical for policy development and implementation.

Until recently, the literature on MSMEs in the Albanian tourism and especially holiday hotels sector was undeveloped and it seems to have received very little attention by previous researchers. Therefore, the main aim of this paper is to provide an analysis of MSMEs in this sector in Albania by considering and identifying the existing problems. In particular, this paper seeks to address three objectives: first, to analyse the main characteristics of MSMEs in the holiday hotels sector in Albania; second, to identify the problems experienced by these enterprises within this sector; and third, to provide interesting policy implications and recommendations for policy makers, public authorities and hotel managers in order to identify the priorities for the development of the holiday hotels sector and tourism in Albania.

In addressing these objectives the paper is structured into three further sections of discussion. In Section 2, a profile is provided in terms of the context and situation of the holiday hotels sector in Albania. Section 3 is focused on the situation and problems experienced by MSMEs in this sector. It explains initially the research methodology and data used and then analyses the research results. Finally, Section 4 offers the conclusions and recommendations.

## 2. CONTEXT OF THE HOLIDAY HOTELS SECTOR IN ALBANIA

Since the focus of the analysis in this study is the holiday hotels sector, this section attempts to describe the general situation of this sector in Albania. As for all the tourism industry in Albania, the first limitation is in regard to the lack of studies, in particular regarding MSMEs. It is difficult to conceive any other industry or sector in Albania with such a high annual income but with so little research, published or unpublished. This may be attributed to the fact that the limited statistics provided by the official sources, such as Ministry of Tourism, Culture, Youth and Sports (MTCYS), Institute of Statistics (INSTAT) and Bank of Albania, rarely include data about this important sector, as previously considered. For example, in many cases the statistics provided by INSTAT and the Bank of Albania consider hotels and restaurants enterprises in the same category. Sometimes, this category includes also trade.

INSTAT (2008) provides some information about the existing hotels and their capacity in Albania, although it does not provide data about holiday hotels in particular. The available statistics indicate that the majority of hotels in Albania are new. Specifically, Table 1 presents the number of hotels and bed places in Albania which have increased by more than three times, during the period 1995 - 2007. These new hotels are built after the introduction of the market economy and the private ownership. However, these figures include only the official hotels operating in Albania.

**Table 1** Hotels and their capacity (*Source*: INSTAT 2008)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Hotels | 62 | 81 | 85 | 85 | 102 | 142 | 185 | 194 | 199 | 170 | 230 | 252 | 220 |
| Bed places | 2,018 | 3,719 | 3,423 | 3,423 | 3,575 | 5,919 | 7,677 | 7,996 | 8,420 | 6,600 | 7,642 | 8362 | 7,791 |

In addition, information provided by the Business Register (INSTAT, 2007) indicates that hotels and restaurants activities in 2006 are the second largest category of new enterprises at 18 per cent (after retail trade at 41 per cent), reflecting the development of this sector in Albania. However, Mullai (2005) found that the existing size of the hotel on the coastline of Albania is small, largely having a capacity of up to 20 rooms. Hotels of this size are not able to work with big tourist groups organised in package tours by the western operators. Such hotels capacities match only the demand of individual clients or small-organised groups of tourists.

Although some improvements have been made to the Albanian holiday hotels sector during the last decade, many problems have not changed and this has resulted in a relatively low number of foreign tourists visiting the Albanian coastline as opposed to other neighbouring Mediterranean countries. These problems include mainly the lack of information and marketing, overall poor infrastructure, environment, lack of skilled people and low level of suitable accommodation (Kushi, 2008).

## 3. SITUATION AND PROBLEMS OF MSMEs IN ALBANIAN HOLIDAY HOTELS

As considered in Section 2, one of the most important issues characterising the holiday hotels sector in Albania is the absence or insufficiency of data and data sources at the national level. In addition to the inefficiency of basic statistics, the literature on this topic is scarce. There are a very limited number of studies on tourism in general and only a few of these include any information on the holiday hotels sector. Given this situation, the study makes use of primary data, which is presented in the following subsection of research methodology and data used. The second subsection presents and discusses the research results.

### 3.1 Research methodology and data used

The primary data was collected during the peak season of summer 2006 in Durres, the major sun-and-beach segment in Albania, for an analysis of MSMEs in this sector. A field survey was conducted to collect the necessary information through the use of a questionnaire for holiday hotels representatives. Given the limited time and resources for the investigation, it covered only Durres coast because, according to MTCYS (2007) and INSTAT (2007), it represents the largest beach and sea destination of the holiday hotels sector in Albania, with a coast of six km long and 150-180 m wide and only 39 km from Tirana, the capital of Albania.

Effort was made to work with the local officials and authorities of Durres District, Chamber of Commerce in Durres as well as representatives of MTCYS and INSTAT who provided this study with the available information and lists of hotels. Given the difficulties involved in primary data collection, a pilot survey was undertaken in the study area. The main aims of the pilot survey were to assess the feasibility of collecting the necessary information, maximising the reliability of data and the questionnaire design. This process helped to be aware of any potential risk and to take necessary measures before the survey. Several difficulties were faced at this stage because it was not possible to interview a few hotels in the area, either because they were still operating in the informal market and/or had concerns about giving information. It is important to mention here that Albanian hoteliers are generally unwilling to give any information to people they do not know because they suspect such information will be used against them. However, those cases were very small and complete information was obtained on 83 hotels, which represent almost the whole population of legal holiday hotels on the Durres coast. The survey was executed by a qualified team which was trained both before and after the pilot survey in order to ensure the necessary interviewers' characteristics and familiarity with this study.

### 3.2 Research results

In terms of size, the firms' classification in Albania is determined by the number of employees (Albanian Law no. 8957, October 2002, "For small and medium enterprises"). This Law suggests that:

- Micro enterprises are economic enterprises employing one to 5 employees.
- Small enterprises are economic enterprises employing six to 20 employees.
- Medium enterprises are economic enterprises employing 21 to 80 employees.
- Big enterprises are economic enterprises employing more then 80 employees.

According to this classification, the Business register of INSTAT (2005) suggests that the micro and small enterprises account for nearly 94 per cent of the population of firms in Albania. Enterprises with more than 80 employees make less than 1 per cent of the total active enterprises but their contribution in the national employment level is very important at about 44 per cent. Firms in trade and services sectors are usually small entities and contribute to output and employment less than larger firms in the production sector. This reflects a major feature of the new private sector in Albania, where single proprietorship micro enterprises (mainly family businesses), with one to four employees, dominate the economy (Muço et al., 2004).

The results of the survey are in line with the general economic situation in Albania which is characterised by the dominance of micro and small-sized enterprises. Also, part time employment was present in almost all the interviewed hotels, because of the seasonality of the service. However, the specification of the data required brought some difficulties because of the sensitivity of some information. Therefore, the pilot survey suggests it may be more appropriate to measure the size of hotels by the total number of rooms. More specifically, there exists a cultural taboo in Albania about disclosing financial data, in particular data about profits, payments (that is, wages and distributed profits) and the composition of the workforce (that is, owners and employees, full-time and part-time, and so on). Also, because of the high level of the informal economy many firms in Albania hide their true profits, mainly by underreporting the number of their employees, in order to reduce their tax burden. This economy is estimated by the the International Fund to be 50% of Albanian GDP in 2006 This situation is more severe in the case of the holiday hotels sector; because of the low occupancy outside the peak season hotels employ some seasonal and part-time workers who are generally not registered. For that reason, less sensitive questions were used in the final survey. So, in order to get a more accurate measure of the hotel size, the interviewees were asked a question on their total number of rooms. Not included in the final survey were questions about the total annual revenue or total number of employees as these proved problematic.

Figure 1 presents the distribution of hotels in the sample according to size categories. The majority of the holiday hotels in the sample (82 per cent) are micro and small hotels (59 per cent have between 11 and 30 rooms in total and 23 per cent less than ten rooms) and only four per cent are big hotels (three hotels with more than 90 rooms in total). These three biggest hotels are the oldest ones which were built in the socialist regime (before 1990). Currently two of these hotels are privatised and one is still state owned.

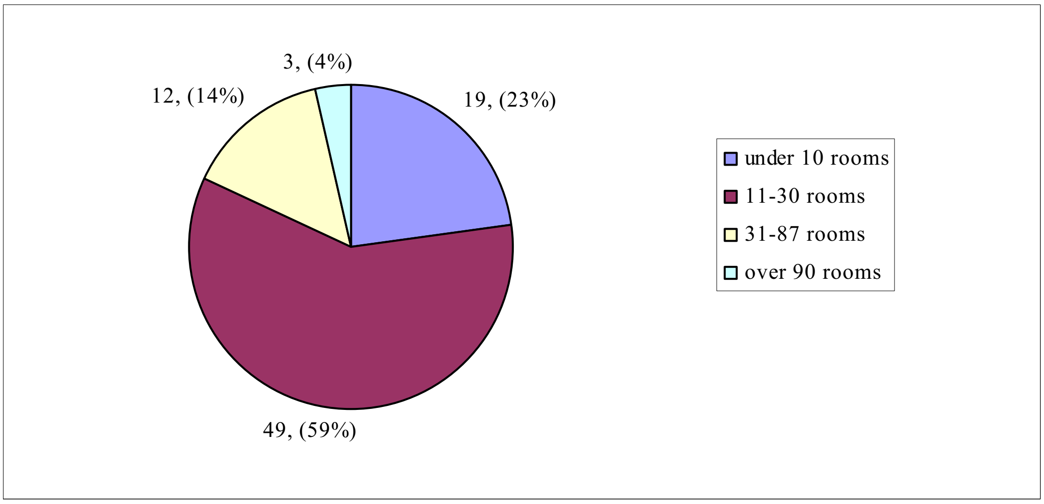


**Figure 1** Distribution of holiday hotels according to the size categories

As for all the Albanian holiday hotels, the majority of holiday hotels in the sample are small; the average number of rooms is approximately 27 and the median is 20, indicating a positively skewed distribution. There is an effect of outliers because of the presence of the three very large hotels which account respectively 130, 131 and 180 rooms in total. After removing these outliers the average number of rooms is 22 in all the area. The results of the survey support thus previous evidence on the size of holiday hotels in Albania. As considered in Section 2, Mullai (2005) found that the existing structure of the hotels in the coastline area of Albania corresponds to that of a capacity with up to 20 rooms. He suggested that hotels of this size match only the demand of individual clients or small groups of tourists and are generally not able to work with big tourist groups organised in package tours by the western operators. This is one of the most important problems arising from the dominance of MSMEs in the holiday hotels sector in Albania.

Another identified problem is the inefficiency of advertising from these hotels. Previous studies on this topic include Stigler (1961), Benham (1972), Cady (1976), Feldman and Begun (1980), etc. The strategic role of advertising and information in tourism may be understood by considering three important aspects of the definition of the tourism "good", as considered by Kushi (2008). First, the tourism good is a combination of goods, meaning that it constitutes a set of characteristics such as location, transport, accommodation, attractions and support services. Each of these components constitutes a potential source of information asymmetry. Second, the tourism product is an "experience" good, meaning that tourists cannot appreciate the quality of the tourism good before they consume it, and they cannot actually taste a sample of the product. Thus, as Nelson (1974) suggests, they can only study the tourist information available and try to evaluate the quality. However, quality is a subjective characteristic and the problem of quality uncertainty is greater than the problem of price uncertainty. Quality information generally is more costly to obtain and advertisements cannot generally be relied upon. Third, the tourism product is a localised activity and a tourist does not always know the precise location. It can be a historical site, a natural park, a restaurant, a hotel or a motel, and so on. As consumers face a lot of sources of information, firms need to signal their existence, and not only for differentiation (that is the role of the brand), but to give information to the consumers about their location inside the multidimensional space: informational and geographical space.

However, Albanian small firms in general do not use advertising or just spend a very restricted amount of money because of the low level of revenues (Gorica 2002). This amount is even lower in the case of the holiday hotels sector where the peak season is very short (a maximum three to four months during the summer). Sometimes advertising expenditures are conditional on annual revenues so that firms employ advertising only during prosperous periods. The dataset clearly reflects this situation. About 53 per cent of holiday hotels in the dataset employ advertising in media during the peak season, while 47 per cent do not. In order to have a clearer idea about the hotels which do advertise, Figure 2 presents the distribution of holiday hotels according to the employment of advertising in media and size categories of the hotels. As expected, the majority of MSMEs (79 per cent or 15 out of 19 hotels with less than 10 rooms) do not spend on advertising in media, probably because of their limited financial capacities, as argued above by Gorica (2002).

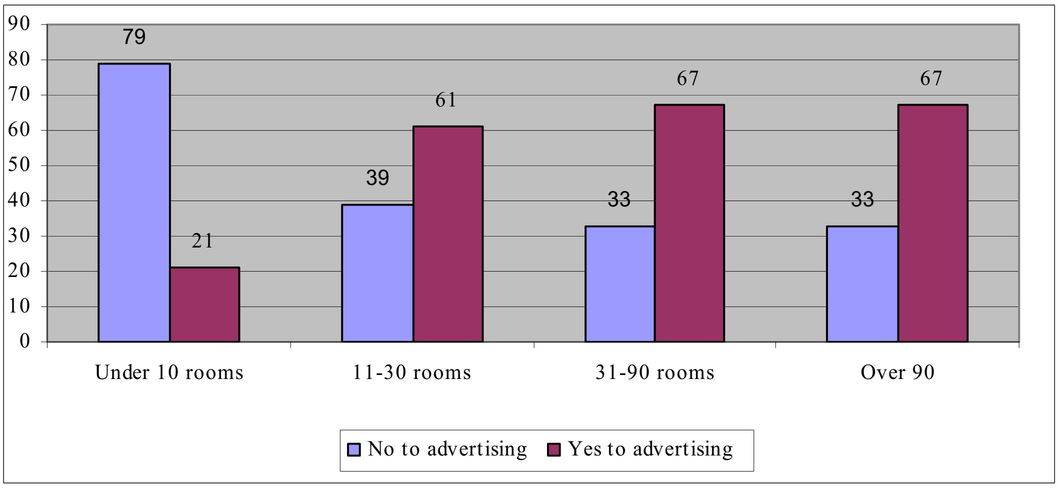


**Figure 2** Distribution of hotels by the advertising employment and size categories (in %)

In order to test again the earlier assumption that in Albania larger hotels spend a higher percentage of revenue on advertising activities, the relationship between size categories of hotels which advertise and advertising expenses (as a percentage of the total annual revenue) is investigated. Figure 3 indicates that the biggest hotels in the dataset (with more than 90 rooms), spend the highest percentage of the total annual revenue on advertising activities (on average 15 per cent). On the other hand, MSMEs spend on advertising on average between 3.6 per cent and 5.3 per cent of their total annual revenue.

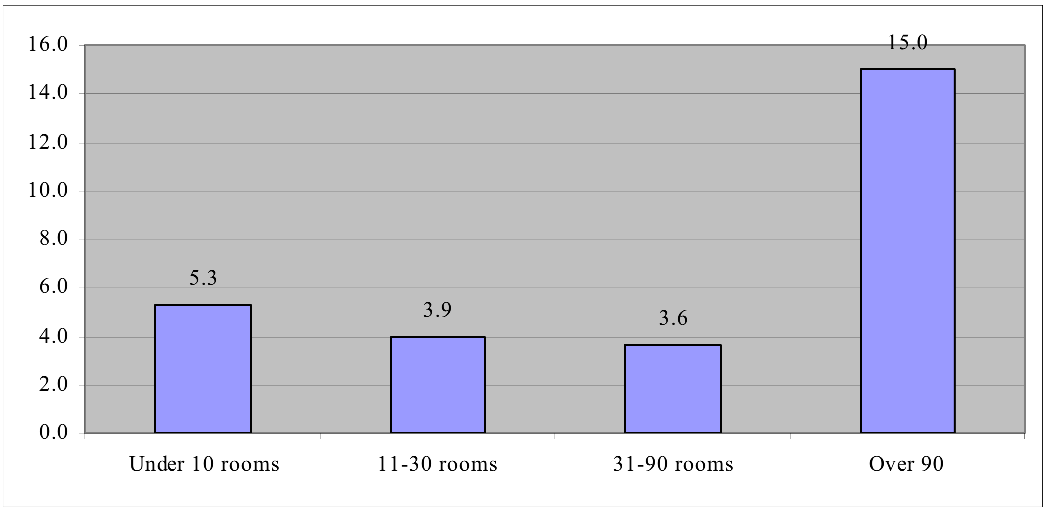


**Figure 3** Advertising expenses (in % of total annual revenue) by the size category of hotels

In addition, MSMEs in the holiday hotels sector may not have some important opportunities that larger hotels have. More specifically, the existing theory suggests that larger size of hotels provides economies of scale and also seems to result in higher revenues per room (for example, Espinet et al. 2003). Economies of scale characterise a production process in which an increase in the scale of the firm causes a decrease in the long run average cost of each unit. Typically, a company that achieves economies of scale lowers the average cost per unit through increased production since fixed costs are shared over an increased number of goods. On the other hand, large establishments are considered to be desirable to consumers possibly due to the variety of facilities offered, such as sport facilities, swimming pools, green areas, service quality, cleanliness, etc.

## 4. CONCLUSIONS AND RECOMMENDATIONS

This final section summarises the main findings of the paper and provides some interesting recommendations for policy makers, public authorities and hotel managers in order to identify the priorities for the development of the holiday hotels sector and tourism in Albania.

The results indicate that the holiday hotels sector in Albania is characterised by the dominance of micro and small-sized enterprises, which is in line with the general economic situation in Albania. More specifically, the average number of rooms is approximately 27. Only four per cent of holiday hotels in the sample are big hotels while the majority are micro and small hotels. The first important problem arising from this situation is that hotels of this size match only the demand of individual clients or small groups of tourists and are generally not able to work with big tourist groups organised in package tours by the western operators. In addition, the analysis suggests that advertising plays a strategic role in tourism development. However, in Albania small firms in general do not use advertising or just spend a very restricted amount of money because of the low level of the revenues. The results of this paper indicate that this amount is even lower in the case of the holiday hotels sector where the peak season is very short. Only 53 per cent of holiday hotels in the sample employ advertising in media during the peak season while the majority of MSMEs (79 per cent) do not spend on advertising in media, probably because of their limited financial capacities. Moreover, larger size provides economies of scale and also seems to result in higher revenues per room. Therefore, the analysis suggests the encouragement of new investments in large hotels. This may give hoteliers the opportunity to include additional facilities, such as sport facilities, swimming pools and green areas, which are considered to be appreciated by the majority of tourists. Larger hotels may also be able to work with big tourist groups organised in package tours by the western operators, thus expanding the international market which is an important objective of Albanian tourism. However, the sector seems not to be aware of this, or may be limited by resources, as most new hotels in the area have no more than 30 rooms. So, in the last five years, 79 per cent of the new hotels (30 out of 38) have less than 30 rooms in total.

Finally, this paper observed an important limitation of the data and data sources in Albanian tourism in general and its holiday hotels sector, on the consistency, relevance and reliability of the existing statistics, especially regarding MSMEs. In addition, a significant lack of research is also identified on this topic. Therefore, an important recommendation is addressed to the MTCYS, INSTAT and other governmental institutions and statistical offices, tourism industry and academics. This implies the need for more information, statistics, analysis and market research, which can assist researchers and tourism enterprises making appropriate decisions.

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