

RESEARCH ARTICLE

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A review of factors affecting SMEs performance: An Albanian rural tourism perspective

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Abstract

Apart that tourism is a crucial contributor to the Albanian economic development, this sector is facing several concerns. Although, tourism's sector lifespan, complexity of the product and seasonality nature, are close related to the SMEs performance, the need to go deeply and investigate the factors that affect tourism SMEs performance, is needed. We referred to the theoretical frameworks such as stakeholder theory, resource based view and market orientation approach, to accurately identify into the business environment factors that affect SMEs' performance. Finally, through this literature review paper, we have identified three significant factors that potentially affect SMEs performance within tourism industry. Thus, innovativeness, innovation behavior, customer orientation and human resources hiring and training practices, based on a deeply literature review, are argued to be significant on affecting SMEs performance.

Keywords: Rural tourism; performance; innovativeness; innovation behavior; HR practices; Customer orientation.

1. Introduction

Tourism represents one of the most significant alternatives for the country's socio-economic development. WTTC (2017) points out that direct contribution of travel and tourism to GDP in 2016 was 8.4%. Regarding the employment contribution, this sector generated 85,500 jobs directly in 2014 (7.7% of total employment). One of the most significant branch of this significant sector is rural tourism which represents a crucial branch for development at rural areas. Additionally, considering that roughly 49% of population lives in rural areas, makes it a significant dimension for the development of rural areas. As a concept, rural tourism provides a close interaction with agricultural activities, traditional gastronomy, presentation of heritage and tourist services. More widely, Drăgulănescu and Drutu (2012) defined rural tourism as "any tourism activity in rural areas organized and run by local people, drawing on local tourism resources (natural, cultural, historical, human) and facilities, tourist, including pensions and agro farms". Considering these definitions about rural tourism, we can identify it as a crucial alternative for rural activities diversification. To this, there are studies that empirically investigated the economic and non-economic benefits of tourism at the rural activities such as agritourism farms. For example, Tew and Barbieri (2012) found that there was 55.6% increase on the farms' income after implementation of tourism activities. Apart economic benefits, tourism activities in rural areas provides non-economic benefits such as educating the public about agriculture, enhancing family quality of life etc. Indeed, nowadays business environment is rapidly changing [9] urging the need to be adjusted into it. Additionally, inevitably, some SMEs succeed and others fail during their life cycle. In this regard, managers/owners continually have to identify the most significant factors into the SMEs' environment that affect their success/performance [9]. While there are several studies that address this issue at tourism SMEs in general, there is a lack of literature empirically investigating it at the rural tourism SMEs such as tourism farms, resorts, restaurants, guest houses etc.

In this framework, the main goal of this study is to theoretically investigate and review factors affecting performance of rural SMEs that has at least a tourism activity. In this line, this study will provide a significant theoretical framework for further empirical investigation of factors affecting rural tourism SMEs performance.

2. Theoretical background

While we aim to review the literature about factors affecting SMEs' performance it is indisputable to consider theoretical approaches for this purpose. Performance is a broad concept and should be viewed holistically [27] and related to other theories and contributing to the accurate process of finding factors affecting SMEs performance. Thus, to justify the selection of the most significant factors from SMEs environment that affect their performance and to reach the objective of this study, we incorporated and referred to the theoretical frameworks such as stakeholder theory, resource based view and market orientation. Mitchell et al. (1997) argue that the key questions that stakeholder theory tends to address are; "who (or what) are the stakeholders of the SME? And to whom (or what) do managers pay attention?" Freeman's wide definition and most accepted on stakeholder theory is; "A stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives" [11]. Hence, this theoretical approach guides us to consider customer orientation and human resources practices as significant factors that influence SMEs performance. Resources, which are the basic units of analysis for the resource-based view, can be defined as those assets that are tied semi-permanently to the firm [38]. They include financial, human, physical, technological, commercial, and organizational assets used by firms to produce and deliver products and services to its customers [3]. While stakeholder theory focuses on environment by considering the stakeholders which are affected and affect business' objectives, on the other hand, the resource-based view (RBV) is more specific, viewing business internally. Finally, resource based view, suggest us to take in consideration human resources and innovation as two important resources that affect firm's success or performance. Narver and Slater (1990) define market orientation (MO) as "the business culture that most effectively and efficiently creates superior value for customers." Indeed, Narver and Slater (1990) have measured MO through three behavioral components, customer orientation (CO), competitor orientation and inter-functional co-ordination. Consequently, MO approach guides us to select CO as one of the most important factors that affect the business performance.

3. Factors affecting rural tourism smes' performance: a literature review

3.1 Performance

Performance is a focal phenomenon in management researches and furthermore, one of the most predominant dependent variable in the strategic management literature [18]. One of the most wide accepted definition about business performance is that of Pfeffer and Salancik [26] who stated that performance as a concept it can be characterized as the "firm's ability to create acceptable outcomes and actions." Furthermore, within our study the operationalization of the performance will be in financial measures (profits and sales) and non-financial measures (customer loyalty or retention and customer value).

3.2 Innovation and SMEs performance

Innovation is a complex and wide concept. Thus, in order to better understand and study this concept, we should operationalize it. Estimating the scale of innovation in tourism is problematic. Different authors perceive differently the concept of innovation. Several studies tackle innovation in terms of technological/technical innovation and organizational/administrative innovation [5; 20, 21]. Despite these measures of innovation, current studies in the tourism sector measure innovation in terms of innovation behavior [21; 12] and innovativeness [15, 34, 12].

Innovativeness can be distinguished from innovation behavior as an organization's orientation towards innovation [15, 34; 12], whereas innovation behavior is the quantity of new products and services that the businesses actually introduces [12, 21]. Thus, while innovativeness is related to the organization's attitude and the innovation behavior is represents organization's behavior in terms of innovation, practically implemented.

3.2.1 Innovativeness and SMEs performance

Innovativeness is considered as the “first step or phase” before the businesses practically innovates. In this line, Van de Ven (1986) considers innovativeness as the management of the organization’s cultural attention in order to recognize the need for new ideas and actions within the organization. Grisseman et al. (2013), studying the hotel industry, considered innovativeness as an “attitudinal dimension” of innovation. Within tourism SMEs context, innovativeness can take various forms, such as developing appropriate strategies, encouraging employees to come up with creative ideas, or simply being open toward the change [34]. There are relevant and comprehensive studies that empirically show the influence of innovativeness on SMEs performance. Thus, Hult et al. (2004) in their empirical findings confirm innovativeness as an important determinant of business performance. Tsai and Yang (2013) suggest that innovativeness is a crucial factor to enhance business performance in highly turbulent and highly competitive markets. Tajeddini and Trueman (2012) concluded that if managers and employees are innovative or open to new ideas they are more likely to enhance business performance in tourism sector. Thus, we identified positive relation of innovativeness and tourism SMEs performance.

3.2.2 Innovation behavior and SMEs performance

While innovativeness represent the first phase of innovation, the innovation behavior represents a continuing phases of implementation of innovation. As a result, innovativeness reinforces innovation behaviors and stimulates innovative behaviors that may yield new products, services, or processes [15]. Innovation behavior includes a wide range of factors such as establishing efficient registration and check-in/out systems, choosing outstanding architectural designs, or providing memorable experiences. Ottenbacher and Gnoth (2005), Storey and Easingwood (1998) concluded that innovation behavior in terms of new products and services increase the financial performance and reputation. In this line, Ottenbacher et al. (2006) identified a positive link between innovation behavior and hotels performance in terms of reputation. Grisseman et al. (2013) concluded that innovation behavior enhances financial performance, customer retention, increase efficiency, and reinforces the competitiveness position. To this, theoretically, innovation behavior is significantly and positively related to the tourism SMEs performance.

3.3 Customer orientation and SMEs performance

There are certain definitions about CO. Shapiro (1988) considers CO as the information gathered about customers and formulating strategies and tactics to satisfy market needs. Narver and Slater (1990) define CO as “the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers.” CO may be understood as the measure of the extent to which decisions and activities into the business are customer based. Deshpandé et al. (1993), who define CO as “the set of beliefs that puts the customer’s interest first, while not excluding those of all other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise”. Appiah-Adu and Singh (1998) concluded that CO was significantly and positively related to business performance across a range of SMEs. Pelham and Wilson’s (1996) concluded that SMEs performance has a positive link with CO. Deshpande et al. (1993) in their empirical investigation about Japanese businesses concluded that CO was positively associated with performance. Tajeddini and Trueman (2013) in their study concluded that customer orientation positively influences performance in terms of efficiency and effectiveness. Merlo et al. (2006), noted that customer oriented service is a key factor that significantly influences performance. Consequently, these studies provides us a theoretical basis to justify the positive relationship between CO and SMEs performance.

3.4 Human resources practices and SMEs performance

Studies that examine the relationship between HR management with business performance have grown in recent years. The active and close contact of the service providers with customers is one of the key characteristics of the service industry, and particularly in the tourism industry such as hotels industry [12]. To this, the need to hire employees with required skills and train for improving skills that raise their intrinsic motivation toward customers’ needs and wants, is required. Early research on the HR management-performance relationship

suggested that the adoption of human resources “best practice” might have a universal positive effect on firm performance [29]. Furthermore, there are studies that have demonstrated statistically significant relationships between measures of HR practices and firm profitability [7, 13]. Wright et al. (2003) found relationships between HR hiring and training practices with organizational commitment in terms of financial performance measures.

3.4.1 HR hiring practices and SMEs performance

Chang et al. (2011) argue that, because of the great number of tacit skills required in tourism industry, the necessary skills might be costly to acquire through either training or a learning-by-doing process. For example, in restaurants it is needed to have sufficient experiences on creating new food items by combining food ingredients [24]. Chang et al. (2011) concluded that instead of spending for employees training and waiting to accumulate the needed tacit skills, tourism businesses can attract and hire skillful staff. Sheehan (2013) concluded that, given the potentially high direct and indirect costs to SMEs associated with investments on HR, hiring practices are positively associated with performance. He argued that SMEs that utilize the hiring human resource practices have a higher rate of labor retention. Furthermore, Sheehan (2013) claim that it is recommended for SME owners to apply the hiring human resource practices at 90% or more of their employee’s selection.

3.4.2 HR training practices and SMEs performance

On the one hand, hiring process brings to the business the employee with necessary tacit skills required, and other experiences required, on the other hand, the training process will broaden the knowledge and skills of employees and will increase their intrinsic motivation [2,30]. The impact of training on performance has been investigated most frequently, and generally, a positive association is found [6,32]. Sheehan (2013) concluded that training and development is most significantly associated with performance, by having higher rate of labor retention.

4. Conclusions

Beyond the importance of the tourism contribution to the economic development, the goal of this study was to address issues related to the rural tourism SMEs management, and specifically identifying factors that potentially affect their performance.

To justify the selection of the innovation, CO and HR practices as factors affecting rural SMEs performance, we referred to the theoretical frameworks such as stakeholder theory, resource based view and market orientation approach.

After reviewing the literature in tourism about the relationships between innovation, CO and HR practices, we found that theoretically all these three independent variables have positive relationships with performance of tourism SMEs.

Addressing the relationships between innovation, human resources practices, customer orientation and SMEs performance in rural areas, undoubtedly contribute to the actual and future researches. This is enforced even by the fact that there are no studies investigating these relationships specifically at the agritourism farms or other enterprises in rural areas. Thus, we strongly suggest future researches to empirically investigate these relationships, considering the increasing role of rural tourism for economic and non-economic development.

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