



BUSINESS ENVIRONMENT FOR HOSPITALITY ENTREPRENEURSHIP

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Abstract

Entrepreneurship penetrates all spheres of the economy and life in general. It develops in a particular business environment, which looks for developmental opportunities. Within this environment, a wide spectre of factors is at work: social, cultural and political. These factors can promote or discourage entrepreneurial activities. In this process, state mechanisms play an important role. The main purpose of this paper is to get insight into how the entrepreneurs in small hotels (SH) in Slovenia asses the business environment for running small hospitality businesses. Empirical research was conducted in Slovenia in 2014 and 2015. The data were collected from SH entrepreneurs and SH directors during 62 semi-structured interviews. We analysed data with qualitative methods: interpretation, comparison, grouping, quantification. The results of the research provide a clear insight about major issues that Slovenian entrepreneurs have to face in the business environment when running their SH. They are – at certain points – consistent with findings in other countries. The research can assist the state institutions to implement certain measures and mechanisms to improve institutional framework for entrepreneurship.

Key Words

Entrepreneurship; hospitality; small hotels; business environment.

INTRODUCTION

In academic literature, there are different definitions of entrepreneurship, entrepreneurs and enterprise. Some author (e. g. Ateljević and Li, 2009; Lee-Ross and Lashley, 2009) state that the reason lies in their multidisciplinary nature. Cerović (2010) advocates that those phenomena are interactively connected and form an interdependent whole. General Entrepreneurship Monitor (GEM) adopts the definition of entrepreneurship after Raynolds (1999; after GEM 2015, p. 17) in the context of understanding its importance for ensuring economic growth.

How we define entrepreneurship also depends on the study being conducted. It can be understood differently when studied from the point of view of macro or micro economy (Antončič et al.; 2002):

- a) in macroeconomic sense entrepreneurship is understood as a driving force of general social progress – in the search of global market equilibrium it creates developmental dynamics, growth, company development, the development of regional and national economies as well as the world economy;
- b) from microeconomic perspective it is understood in the sense of satisfying market needs seeking market equilibrium in supply and demand for goods and services, which are offered by individual economic units.

Entrepreneurship can be found in various forms (individual, collective, social) and in different areas of economic and non-economic activities; however, some forms are more popular in certain spheres that others. According to Sahut and Peris-Ortiz (2013) a small business provides by far the most conducive environment for entrepreneurship. Tourism and hospitality, for instance, depend on individuals who found business opportunities in accommodation, food services and tourism: they transform their ideas into businesses and realise their business ventures within small and medium sized enterprises – SMEs (Lee-Ross and Lashely 2009). Cerović (2010) classifies them as entrepreneurs that belong to the so-called individual entrepreneurial and managerial function. In practice, restaurants, tourist accommodation and small hotels with up to 50 rooms (apartments) belong to this group.

Business ventures are influenced by various factors, which compose the business environment. It is determined by (Glas, 2002; Lee-Ross and Lashely, 2009; Hisrich et al. 2010):

- a) the environment that is external to the enterprise (macro: political, economic, socio-cultural and technological factors; micro: state and local authorities and institutions, suppliers, customers etc.);
- b) the environment that is internal to the enterprise (value system, organisational structure, physical assets etc.).

With the term business environment in this research, we address the micro factors that are generally in focus when researching the external factors for running a business (e.g. in EU-lex, 2011; Ratten, 2014). We answer the following research question: how entrepreneurs who run small hotels (SH)

asses the business environment in Slovenia for operating their hospitality business.

The paper is organised as follows. First, we present theoretical framework on business environment for entrepreneurship development with emphasis on the role of the state mechanisms. We continue with the presentation of methodology and research results. The conclusions are summarised in the next section. At the end we compare the results of the study with findings in existing literature on applicability of the results.

THEORETICAL FRAMEWORK

Entrepreneurship comprises a complex and closely interwoven operation of many factors" (Rebernik et al., 2017). It develops differently within individual counties. Many macroeconomic and institutional causes can explain the differences in entrepreneurial intensity between countries and areas; they refer to what W. J. Baumol names "the rules of the game" (Adbesselam et al., 2017). For Glas (2000), a macroeconomic assumption for the development of entrepreneurship is effective market operations. Stable economic environment makes it possible for entrepreneurs to plan better and focus on the key advantages of their entrepreneurial activities (ibid). External environmental factors that influence entrepreneurs' actions during the initial phase seem to be more important for company growth than the so-called internal factors, which are mainly influenced by entrepreneurs themselves (Pšeničny et al. 2000).

In the existing literature, the factors of business environment created by the state and its' mechanisms refer to institutional environment (Gupta et al., 2014) — mostly as regulatory, normative and cognitive institutional environment (e. g. Sambharya and Musteen, 2014; Volchek et al., 2014; Hadjimanolis, 2016; Fortwengel and Jackson, 2016). Rebernik et al. (2017) include some institutional factors for business environment in entrepreneurship ecosystem which consist on nine entrepreneurial framework condition categories (entrepreneurial finance, government policies, government entrepreneurship programmes, entrepreneurship education and training, R&D transfer, access to commercial and legal infrastructure, internal market dynamics and burdens or entry regulations, access to physical infrastructure, and cultural and social norms).

Government policies and regulations play a key role in creating a more favourable entrepreneurial environment (Rebernik et al., 2017). They help entrepreneurship development in different ways: with well-formed and focused developmental programmes, through creating supportive culture for entrepreneurship, by encouraging collaboration, by giving recognition and respecting successful entrepreneurs etc. (OECD 1998). In favour of entrepreneurial development countries can ensure a healthy entrepreneurial climate by not interfering into business matters and economy, by respecting targets set by people, by ensuring legal frameworks for efficient market mechanisms, by implementation of sound financial policy and various incentive measures etc. (Žižek, 2000). States can also promote the

development of entrepreneurship and SMEs by providing subsidized loans, tax reliefs during the initial phase, subsidies for new jobs etc. Other forms of state support are reflected in the development of entrepreneurial infrastructure that offers different forms of assistance, e.g. the development of specialised financial organizations for SMEs, advisory networks, education and training organisations, entrepreneurship zones, incubators, technology parks and the like (Glas, 2000).

As entrepreneurial activity fluctuates together with the economic activity, the creators of state policy have to prepare such socio-economic programmes that will encourage economic development (Bosma and Levie 2010). Some examples of support measures are shown in Table 1.

Table 1: State support frame for the promotion of entrepreneurship

CONDITIONS FOR ENTREPRENEURIAL ACTIVITIES	DESCRIPTION			
Economic and professional infrastructure	Presence of business, accounting, legislative services and institutions, which enable setting up new enterprises			
Government policy	Taxes and similar payments that influence nascent enterprises			
Government entrepreneurial programmes	Introduction and quality of direct programmes, which encourage setting up and growth of enterprises (on the state, regional and local level)			
Financial support	Access to financial resources: ownership, debt and non-reimbursable aid			
Openness of domestic market	Access to and exchange of business partners, and new contractual relationships when new companies enter the market			
Education	Education related to setting up and managing small, new and nascent enterprises (in primary schools, secondary schools and HEIs)			
Cultural and social norms	Incentives, awards given for novel business approaches			
Research and development	The scope of research and developmental solutions leading to new economic opportunities			
Access to physical infrastructure	The availability of communication channels, transportation, land, buildings at equal price for all			

Source: Bosma and Levie (2010, p. 33).

The EU has also introduced some forms of support for entrepreneurship and SMEs. In order to encourage successful entrepreneurship, the EU adopted in 2008 (and updated it in 2011) Small Business Act. The main

purpose of the act was to improve business environment for SMEs and help them in fulfilling their potential in the global economy (EUR-lex 2011a).

METHODOLOGY

We conducted the empirical research in SH of Slovenia in 2014 and 2015. Data were collected as part of a comprehensive research on hotel entrepreneurship in Slovenia.

For the research purpose, we determined a SH as being a privately owned (entrepreneurial) small tourist accommodation (at least 10 and not more than 50 hotel rooms/units) that offers hotel services. We identified 125 SH in Slovenia, and subsequently 125 SH entrepreneurs.

Data from SH entrepreneurs (SHE) and SH directors (SHD) were collected using the method of semi-structured interviews. This research method was selected as the most appropriate to achieve the research goal: a) to increase the sample of population of SH (people are reluctant to fill in questionnaires sent to them by mail or e-mail) with personal approach, b) to get better understanding of how interviewees think, react and to listen to their stories; c) to collect "the first-hand" experience.

All SH entrepreneurs were invited to participate in the study and were asked to do so more than ones (with e-mail, with previous personal visits by the researcher, or/and by a phone call). If a SH was managed by a SH managing director and not by a SH entrepreneur her/himself, we first ask SH managers to participate; if they refused we invite SH directors.

Participants were interviewed in their natural settings by the corresponding author. They were asked one question: how they asses the business environment for operating their SH, with pre-prepared sub-questions used when necessary.

Qualitative data collected in semi-structured interviews were analysed through interpretation, finding patterns, comparing features and differences. Some interesting statements are presented in verbatim form (or paraphrased); some data are quantified.

When making the analyses we took into the account the theoretical perspectives of the studied phenomena from existing findings in literature about entrepreneurship in general and hospitality entrepreneurship.

The masculine form is used in text for male and female participants.

RESULTS

We interviewed 50 SH entrepreneurs and 12 SH managers (49,6% response rate). The structure of interviewees *by gender* is fairly uniform: 32 men and 30 women.

Our interviewees were between 30 and 49 years old: SH entrepreneurs were between 40 and 49 years old (44 %), SH directors were, on average, ten years younger. More than half of SH entrepreneurs and SH directors had a college level of education or higher (Table 1).

Table 1: Gender, age and level of education of interviewees

		SH		SH	
		ENTREPRENEUR		DIRECTORS	
		f	f %	f	f %
	Male	29	58,0	3	25,5
GENDER	Female	21	42,0	9	74,5
	Less than 30 years	5	10,0	0	0,0
	30–39	15	30,0	9	75,0
AGE	40–49	22	44,0	2	16,7
	50-59	6	12,0	1	8,3
	More than 60	2	4,0	0	0,00
	years				
	Secondary	21	42,0	4	33,3
LEVEL OF	Higher	9	18,0	3	25,0
EDUCATION	High/university	19	38,0	5	41,7
	M.A./Ph.D.	1	2,0	0	00,0

Note: f = frequency (n = 62), f % = percentage.

Source: Own calculations.

The interviewees considered that legislation, numerous laws and regulations, »limits business activities« (SHE1¹), that they are frequently »impractical« (SHE8), »there are too many of them and they change too often« (SHE1, SHE3, SHE5, SHE7, SHE12, SHE19, SHE21), e.g. fire regulations, regulation regarding food safety, etc. Instead of being occupied with their guests, interviewees spend time studying laws and regulation (SHE5). »The state should work towards entrepreneurial freedom and enable space for people to be able to work« (SHE1). Above all, the state should not »change laws and regulations in the middle of the year«, as was done in the case of VAT (SHE5, SHE8): »prices in hotel industry are set for the next year«, thus the increase in the tax rate in the course of the years had a negative effect on financial results of SHs. »It is difficult to follow all the rules and regulations; I spend one fifth of my time for figuring out how to survive« (SHE35).

Regulation on categorization of hotels unnecessary complicate the conditions of hotel business operations (SHE5, SHE7, SHE8, SHE20). Because of them some hotels have to lower their quality level, defined by the number of stars. »This did not influence our grade, but have an impact on our image; guests keep asking what is going on« (SHE5). Such regulation »guaranteed a job to government officials, but they do not contribute to tourism quality« (SHE5). Today, »when everything can be found on the Internet, the categorisation is senseless« (SHE8). It is thus not reasonable that the state forces SHEs »into a categorisation, because stars in Slovenia are not what they should be« (SHE20). SHE35 did not categorise his SH: »I don't need a categorisation, which is why I do not have it; my hotel is categorised by a high grade on Booking.com.«

¹ Each interviewee is marked with the number from 1 to 62.

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Business activities of SEHs are limited by too much administration, required by the state, by filling in the forms, by keeping records, statistics, etc. (e.g. SHE5, SHE7, SHE26, SHE27, SHE28, SHE45, SHD53, SHDD57, SHD62). Among the SHEs who were building their hotel (SHE10, SHE5, SHE12), only a few obtained the building permit without problems. »If bureaucrats had to earn their money on the market, everything would change; it is getting a bit better, but we are still light years behind« (SHE5).

Work in SHs is too often disturbed by inspector controls (e.g. SHE25 SHE30, SHE54). Inspectors play a role of »money collectors« (SHE21) and are sometimes »more papal than the Pope« (SHE47); and there are too many of them.

Interviewees suggested that the state should improve the tax policy instead of sticking to the punitive policy towards SHs; small enterprises are being »strangled« (SHE13, SHE20, SHE35), »small and large enterprises are in the same basket« (SHE14), »they are overseen« (SHE52) and »nobody cares for their development, as promised on the paper« (SHE55). »Large companies are a different story; in Slovenia it is different than abroad where small enterprises get their share of the cake« (SHD59).

SHs are continuously burdened with »new requirements imposed by the state, which represent additional costs for the SHs « (SHE23). »Everything that has been introduced by the state, should be paid« (SHE3). The price for the »mandatory inspection of oil filter is 500 euros« (SHE23). There are too many state »parasites, who kill us by adding cost, e.g. SAZAS, IPF, RTV« (SHE5, SHE8, SHE14, SHE35, SHE53, SHE56). State requirements are among »the worst in Europe« (SHE23).

The field of »flexible work« changes in a positive direction, but the existing solutions are not adapted to the needs of small employers (SHE20). »Being small, we cannot afford to employ someone, because the expense is too high; we are forced to illegally employ and risk paying a fine «(SHE13).

According to interviewees the state should follow the example of the neighbouring Austria when planning incentives for the development of entrepreneurship. In Austria »you get a consultant when you enter the entrepreneurial path, who trains you for this sort of work« (SHE20). The state should also change the lending policy of Slovenian banks: »In Austria, you can get a loan for 50 years, in Slovenia you get a loan for ten or 15 years« (SHE26).

Some interviewees rate poorly the relationship of the state towards tourism and the relationship of institutions responsible for tourism in Slovenia. They were unique in thinking – especially those who were well acquainted with tourism and former tourist workers – that Slovenia is unable to »position itself in tourism« (SHE15), »is unable to define its tourist products « (SHE49) or that we still »do not know, what we are and where we would like to go« (SHD62).

»We play the game of high tourism in Slovenia, but we are unable to provide the right offer. We are a 3* destination and nothing more; which is reflected in the type of guests we have. If we want to raise the level of services, the state should help us, because individuals alone cannot fight for the development of tourism on their own. Subsidies for the development of

tourist infrastructure were a promising incentive, but not sufficient. We need to take care of the development of the whole infrastructure and for the development of tourist offer. In practice, there have been examples of irrational use of state subsidies for failed projects. People believed that 'if we get something for free, we should take it', they were not thinking about the risks, long-term business operations, or if they would succeed or not (SHE15). SHE37 shares this opinion.

A number of interviewees believe that »on the state level there is no right direction or measures that would foster tourism« (SHE26), that »the state does not support tourism« (SHE13, SHE32, SHE39). SHE32 mentioned an example of good practice of state support for tourism in the past, namely the Association of small hotels. It worked until it was financed by the state. When the financing dried up »the project died«. There were »many words, but little done; the only thing that remained was a brochure about small hotels in Slovenia« (SHE32).

The trend of accumulating projects in Slovenian tourism without any results in practice was mentioned by SHE49 and D51: »We waste money for numerous projects and strategies, which remain in drawers and which have no practical value. Someone thinks about a project, some people join it and everyone is happy, because they 'network'. There is no assessment if the project was successful. No one asks questions, which is a far cry from a healthy entrepreneurial logic. If you have a look at projects and strategies, you find out that everything is done in the same manner of 'copy - paste', the remaining part of the document being pure data« (SHD51). »Projects start and finish, but there are no responsible people, who would see to its implementation. In this way, we only plan a project after a project. Public tourism players, financed by the public money, operate as if they were working for themselves, and not for the effects seen in the real environment. Nobody measures the effects of invested money. There is no integrated approach, investments are dispersed, money is inefficiently spent« (SHE49). »In Slovenia, the slogan 'I feel Slovenia' is where everything starts and ends. The relationship between the state and tourism is the same as the relationship between the owner and me: he is not familiar with the tourism. so he cannot understand it, and I cannot discuss tourism with him« (SHD59).

Marketing and promotion of Slovenia abroad is another topic that interviewees could not positively comment upon (SHE40, SHE45, SHE49). »Because there are so many tourists from abroad, Slovenia should present itself as one destination; each of us should not bring their own leaflet« (SHE49). »Individuals in Slovenia Tourist Organisation (STO) enjoy travelling to India and China, but we do not profit anything from this. Marketing within 500 kilometres from Slovenia is neglected, despite the fact that this is where the majority of our guests come from« (SHD51). »STO and local tourist organisations are full of people, who lead tourism, but do not understand it: it is either their out-dated mentality or their own benefits that play a decisive role« (HE48).

Interviewees miss support for hotel entrepreneurship in the field of marketing. They cannot do it on their own, because when expenses are too high for small enterprises (SHE32), because they are whoo small to be

present on exchanges and fairs« (SHE9), and because »they do not have time« (SHE29). They also believe that »Slovenia should become connected with the rest of the world through better international air traffic routes« (SHE52), and within Slovenia we should »improve road infrastructure« (SHE5).

On the local level, interviewees assess tourist players in a similar way as they assessed them on the state level. »Local scene«, including local tourist organisation, was assessed as »extremely poor« by SHE24 and SHE26. Both SHEs are bothered by the absence of quality offers and by the passivity of local tourist organisation in an established tourist destination. »There is nowhere to park and few opportunities to spend money. Tourists should be prepared in a diplomatic way to spend money« (SHE26). »For the New Years' day we organised ourselves and decorated the city« (SHE24). SHE37 is disappointed by the positioning of the destination by local tourist players, which, in his opinion, could be much better. He believes that the local authorities changed the location into »social destination, some sort of 'Disneyland', with events reminding one on 'utter emptiness'. The destination is not interesting for tourists who rarely stay more than two days«.

Interviewees were critical about the negative attitude of the general environment towards entrepreneurship and about "the envy of people towards entrepreneurs" (SHE39, SHE41, S HE13). "People are envious; when we started, we were doomed to failure" (SHE43). "Everybody is so smart about what I should do about tourism, without saying anything how they could contribute towards the development of tourism in our city". They miss collaboration in the local environment (SHE32): "Instead of being involved in collaboration, they all push in their own direction". (SHE5): "By issuing building permits for holiday villages, local authorities transform the place into a ghost city". (SHE11): "Instead of seeing a partner in you, they see you as a rival". It is unclear to people that all should be involved in tourism, because the hotel without any other services cannot bring tourism to the place".

CONCLUSION

The results of the research give answer to the question how SH entrepreneurs asses the business environment for running hospitality business in Slovenia. We summarise it in three key findings. SH entrepreneurs:

- 1. do *not consider* the business environment for hospitality entrepreneurship in Slovenia as *supportive*;
- 2. exposed *several issues and disadvantages*, but only few positive points;
- 3. understand the business environment generally from the stand point of *institutional environment of the state and local public mechanisms*; SH entrepreneurs:

- a) were particularly critical toward attitude of the state institutions towards entrepreneurship and consider it as »step-motherly«, »anti-entrepreneurial« or »demotivating«;
- b) expressed greatest dissatisfaction with: numerous regulations, too many changes in regulation, impractical solutions, extensive administrative tasks, frequent new obligations which brings additional cost, rigid labour laws, taxation burdens, frequent inspection controls and high fines, equal treatment of small and large enterprises;
- c) draw attention to the inadequate relationship of the state and its players toward tourism development and the obstacles they are faced with in their local environment; participants with previous experience in tourism were most critical towards the state and public tourist institutions;
- d) emphasise inefficiency of public tourism institutions: no right direction or measures that would foster tourism; accumulating projects in tourism without any results in practice; no assessment if the project was successful; no integrated approach; investments are dispersed; money is inefficiently spent; subsidies for the development of tourist infrastructure are not a sufficient measure; the whole infrastructure and tourist offer should be developed, care for the development of the whole infrastructure and for the development of tourist offer; the state should help, because individuals alone cannot fight for the development of tourism on their own;
- e) are not happy with: support of the local scene, passivity of local tourist organisation (assessed as »extremely poor); the absence of quality offers; negative attitude of the general local environment towards entrepreneurship (envious people); collaboration in the local environment.

DISCUSSION

The research on business environment for entrepreneurship in hospitality in Slovenia shows that some results are in consistence with existing theoretical and empirical findings about business environment for entrepreneurship in general; however, some findings contradict them.

Among external factors of business environment for hospitality entrepreneurship the role of the state mechanisms was highlighted by the majority of respondents. This finding is in accordance with Lee-Ross and Lashely (2009) and Rebernik et al. (2017) who believe that the state mechanisms play an important role in providing opportunities for entrepreneurship development.

In addition, the results of hospitality entrepreneurs support the findings of Rebernik et al. (2017) on entrepreneurship in Slovenia (for 2016). This research shows that most of the entrepreneurial framework conditions in Slovenia are still rated below the EU average (with few exception). The

same research includes some recommendations for the improvements of government policies related to the profound tax reform, to the removal of administrative obstacles², as well as to the simplification of bureaucracy.

However, Slovenian hospitality entrepreneurs do not feel to be supported by the local population. This finding about the attitude of Slovenians towards entrepreneurs is not in accordance with the results of research of Rebernik et al. (2017). In their research two thirds of the population in Slovenia believe (results are for 2016) that successful entrepreneurs in society are well accepted and enjoying a good reputation.

There are some limitations to be noted. Small hotels are representatives of entrepreneurial hospitality business in tourism accommodation sector, but not the only ones. However, other accommodation entrepreneurs (SMTES) run their hospitality business under similar conditions and in the same business environment. Secondly, some changes might have happened in the business environment during the data collection that lasted more than a year. Thirdly, there are general limitations related with the interview research methods: subjectivity at data collection and representation. Despite these limitations it is believed that the findings in this research are valid for the whole small accommodation sector.

Results of the European Chamber research on the best economic environment in European countries - best European countries for business in 2016 - listed Slovenia on the 21st place from 46 countries (EuCham, 2017). We believe that this finding together with other findings mentioned in this paper strongly indicate that certain changes in institutional mechanisms should be implemented for the improvement of hospitality entrepreneurial business in Slovenia.

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² E. g., in research Entrepreneurship in the EU and beyond (2009) 71% replied that there are too many administrative barriers for setting up a company.

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