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# Scale of hospitality firms and local economic development—evidence from Crete

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**Abstract**

The hospitality industry generates benefits for many host communities including employment generation and foreign exchange earnings. However, the hospitality industry often leads to external dependency contributing to a loss of local control over resources, migrant workforce and leakages outside the local economy, seriously reducing industry's potential for generating net financial advantages and growth for the local economy. Despite the variation of size of hospitality firms, there is still limited research on how well different size hospitality firms contribute to local economic development, something which this paper addresses, taking as a case the island of Crete. The findings suggest that the smaller the size of hospitality firm the larger the benefits to the local economy.


*Keywords:* Hospitality firms; Scale; Economic development; Crete

## 1. Introduction

In 1998, worldwide arrivals reached 625 million; tourist receipts (excluding air transport) were estimated at US$ 445 billion and employment at 230.8 billion (WTO, 1999). Many of these positive economic effects of tourism are drawn from the hospitality industry. As Goss-Turner (1996) reports accommodation accounts for approximately one-third of total trip expenditure. Therefore, the importance of the hospitality industry in economic development is a subject that has been receiving increasing attention in literature (Sharpley, 2000).

Employment generation, foreign exchange and community welfare are the major manifestations of tourism-induced development cited in the literature. Nevertheless, these gains often are diminished due to exogenous domination of the tourism industry and regional inequalities (Khan, 1997; Kontogeorgopoulos, 1998). The attraction of outside investment was one of the prime policies of less developed regions during the 1960s and 1970s (Maillat, 1998; Richardson, 1984; Vazquez-Baruero, 1999). It was believed that the promotion of development in peripheral regions could be achieved through inward investments that would structurally strengthen their economy (Kontogeorgopoulos, 1998; Vazquez-Baruero, 1999). Even in cases where developing countries give higher priority to local investment, mainly capital and employment, the option between local and external driven development may not be available (Gartner, 1999; Wanhill, 2000).

Numerous studies have attempted to show that tourism can not only stimulate regional development, but can also produce regional imbalances (Bryden, 1973; de Kadt, 1979; Komilis, 1994). Tourism is very often confined to a few attractive regions which benefit significantly from all kind of investments and tourist expenditures, while other regions tend to be more or less neglected (Oppermann & Chon, 1997; Peppelenbosch & Tempelman, 1989). In addition, tourism very often results in weak inter-sectoral links (backward linkages), showing the inability of the tourism industry to play a leading or mobilising role in regional development.

Modern capitalist economies are comprised of industrial sectors with enterprises of various sizes (Maggina, 1992). Although the primary motive of businesses is profit, the impacts on the local economy will vary according to their size. In the hospitality literature, there

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is a variety of studies which have researched various aspects of development for small firms (e.g. Beaver & Lashley, 1998; Friel, 1999; Getz & Carlsen, 2000; Glancey & Pettigrew, 1997; Holjevac & Vitodusic, 1999; Horobin & Long, 1996; Main, Chung, & Ingold, 1997; Morrison, 1998; Smith, 1998; Thomas, 1995; Williams, Greenwood, & Shaw, 1989). However, there is limited research for larger hospitality firms. The reason for this may be that the hospitality industry tends to be dominated by a large number of small firms operating alongside a few large ones (Shaw & Williams, 1994, p. 100). For example, Shaw, Williams, and Greenwood (1988) in Cornwall found that only 6.3 percent of the 159 hospitality firms interviewed had more than 40 rooms.

Although there is a growing consensus that hospitality firms' size has important influences on the economic development of a destination there has been a comparative neglect of tourism research into this issue. Notable exceptions include the studies of Kontogeorgopoulos (1998) and Rodenburg (1989) that investigate economic patterns of various size tourism enterprises and their contribution to local economic development. Bearing in mind the limited research on hospitality firms' size variations, it is the aim of this paper to investigate how well different scales of hospitality firms contribute to local economic development taking as a case the island of Crete. It does this in five sections. These sections cover: the literature background; an examination of tourism and hospitality industry in Crete; the methodology of the study; the results of the study; and the conclusions.

## 2. Literature background

Rodenburg (1980, p. 178) identified two meanings of scale: the relative size and capitalisation, i.e. physical plant of an enterprise, and its correlate; and the relative bureaucratisation, i.e. degree of industrial organisation. With reference to the accommodation sector Rodenburg (1980, p. 178) stated that size and bureaucracy define scales of enterprise which attract different categories of customers and based in Bali, Indonesia, he identified three different scales of tourism enterprises: large industrial (international standard hotels of 100 rooms or more), small industrial (economy class hotels) and craft tourism ("homestays", small independent restaurants and souvenir shops). Rodenburg (1980) reported that the economic objectives of increased earnings, foreign exchange, investment, job opportunities, production, entrepreneurship, infrastructure and minimisation of adverse social and cultural effects were not best met by the development of large industrial enterprises.

Kontogeorgopoulos (1998) assessed the economic patterns and opportunities associated with accommodation sector employment on the islands of Samui and Phuket, in Thailand. He identified three size categories of hospitality firms based on their number of rooms: small (1–14 rooms), medium (15–39) and large (40 rooms or more). His findings show that distinctions according to size reveal crucial differences in the nature of tourism-related impacts on employment and proposes that future planning of tourism development must take into account how particular local conditions foster different types of accommodation sector linkages, leakages and economic opportunities.

Most research on firms' size has been based upon the notion that larger firms have more resources (financial, technological, personnel) and are more capable of achieving economies of scale (Aaby & Slater, 1989; Main et al., 1997; Moen, 1999). The entry barriers to establishing a small hotel are quite small, mostly requiring capital investment within the realms of domestic property investment (Beaver & Lashley, 1998; Shaw & Williams, 1988). However, the limited ability to invest makes small enterprises vulnerable in competing with larger firms (Beaver & Lashley, 1998). In addition, small firms require relatively small amounts of expertise (Shaw & Williams, 1988) and "the management process is characterised by the highly personalised preferences, prejudices and attitudes of the firm's entrepreneur, owner and/or owner manager" (Beaver & Lashley, 1998, p. 146). In addition, smaller enterprises tend to be locally owned and employ more family members (Cukier, 1996; Kontogeorgopoulos, 1998). For example, a study of New Zealand tourism industry by Aitken and Hall (2000) reports that as the size of enterprise (defined by the number of employees) increases, the tendency of businesses to be foreign owned increases. In Samui, Thailand, Kontogeorgopoulos (1998, p. 337) found that small- and medium-sized hospitality firms require higher numbers of family ownership/management and employees, and since most of them are locally based, they require a higher proportion of local labour compared to the larger ones.

Fig. 1 summarises various features differentiating small firms from larger ones, showing that as the size

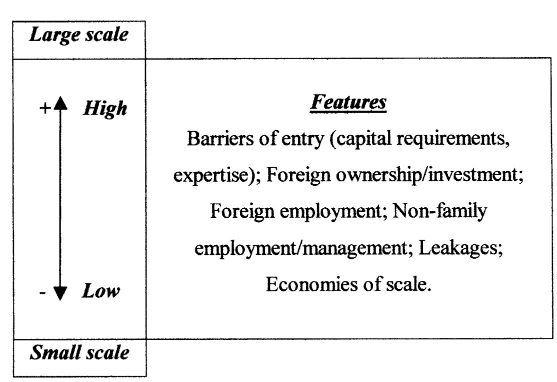


Fig. 1. Features differentiating small firms from larger ones.