

# Small and Medium Enterprise Investment Activity as a Factor of Development in a Tourist Region

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## Abstract

*Small and Medium Enterprises (SMEs) participate in the process of transformations occurring in their environment, which is manifested in their ongoing readiness to investment activity. The aim of this article was to identify relations between the SME investment and the development of tourist regions on the example of three spa and tourist communities. The analysis presented in this article is the result of CATI (with the tourist enterprises) and IDI (with leaders of tourism entrepreneurship) research. Data analysis was performed using statistical measures. The problems related to nature, sources, barriers and SME investment activity were analyzed.*

**Keywords:** SME, entrepreneurship, investment potential, regional development, tourist region

**JEL:** L26, O12, R11, R58

## Introduction

Tourism can be seen as a manifestation of economic, social (including cultural) and spatial activity. According to researchers of regional and local development tourism is indicated as one of the ways of this development for many cities and municipalities (Hall 1994, 6; Mietule 2011). This is due to the fact that tourism is the sector of the economy which especially activates the unused (e.g., natural) potential of the areas. The development of tourism in the regions is part of the EU cohesion policy priorities, which move away from stimulating adaptation capacity in the weaker regions only. It is important that the weaker regions seek their own development path and market niche and create their own endogenous competitiveness (Grosse 2013) through smart specializations. The documents of the European Commission show that an area of smart specialization in the region can be tourism, including medical tourism, spa & wellness, spa and cultural tourism (as one of the creative industries).<sup>1</sup> The source of competitiveness lies in the investment and innovative capabilities of businesses, especially Small and Medium Enterprises (SMEs), located in some areas. Hence, tourism investment and innovation has become the basis of tourism development in the region. The aim of the article was to identify relations between the SME investing activity and the development of tourist regions on the example of three spa and tourist communities: Krasnobród (Lubelskie Voivodship), Solec-Zdrój (Świętokrzyskie Voivodship), and Rymanów (Podkarpackie Voivodship). The analysis is the basis for conclusions on the desired action of local and regional authorities to improve the situation in this area. The analysis presented in this article is the result of quantitative research—CATI with a selected group of tourist enterprises from the three spa

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1. See: Position of the Commission Services on the development of Partnership Agreement and Programmes in Poland for the period 2014–2020. Brussels, 28/09/2012.

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and tourist communities (20 from Krasnobród, 26 from Rymanów and 15 from Solec-Zdrój) and qualitative research—IDI with 9 leaders of tourism entrepreneurship.

## 1 Development of tourism in the region

In general, tourism development theories are not autonomous, but they are based on universal theories and concepts of growth and socio-economic development, particularly at regional and local level. Many researchers (Kozak 2009, 130; Meyer and Milewski 2009; Pawlusiński 2005, 2007) point to the importance of tourism as a factor for the economic and social development of regional and local environments. On the one hand, there is the satisfaction of tourist needs and tourist activity, and on the other hand, there is the potential to meet these needs. In other words, the development of the tourism economy contributes to the development of the region. Development is observed both in the sending and receiving regions. The highest receipts are obtained in reception regions. Therefore, most of the research on the impact of tourism development on the region's economy is centered on reception regions (Januszewska and Nawrocka 2015). The most commonly used indicators are: the share of tourism in GDP, the share of tourism in investments, the share of tourism in employment and the share of tourism in exports.

As a result of multiplier effects, the economy affects other seemingly distant activities. According to the theory of tourism multiplier (Checchi and Company and Clement 1961), the effect is triggered by the demand of tourists and triggers the chain of benefits in the sectors cooperating with tourism. The direct effect is revealed in this part of the economy, which directly satisfies tourist demand. The indirect effect relates to the purchase of tourist businesses in other sectors in the tourist reception area. In turn, the induced effect is due to the income of the population employed in tourism. The multiplier effect of tourism is greater, the more cash flowing from tourism changes its owners. In this way, these funds generate more production of goods and services in a particular region or country (Panasiuk 2007). The scale of multiplier effects on tourism depends on the productive capacity of the regional economy, i.e. the effects will be greater, the supply in the region will be greater and the tourism industry more integrated with other sectors of the economy.

SME investing activity and the development of tourist regions were analyzed at the level of particular spa communes: Krasnobród, Solec-Zdrój, and Rymanów. The analysis focused mainly on development of the tourist region based on local entrepreneurship and SME investing activity. The authors considered that the SMEs have a significant role in enhancing the competitiveness and attractiveness of the region's tourism, and thus the development of the tourist region.

## 2 Methods and research sample

Study of investment climate and SME investing activity is part of the project „Współpraca gminy Krasnobród, Rymanów i Solec-Zdrój w zakresie rozwoju kompetencji uzdrowiskowych i turystycznych” [Co-operation of the municipality of Krasnobród, Rymanów, and Solec-Zdrój in terms of development of spa and tourist competencies] carried out in 2013–2014. In order to obtain quantitative data, the questionnaire method was used. The study was performed using the CATI technique. The research tool—a questionnaire—was carried out using the LimeSurvey system. Quantitative research was preceded by the desk research stage. The analysis presented in this article is the result of quantitative research—CATI with the selected group of tourist enterprises from the three spa and tourist communities (20 from Krasnobród, 26 from Rymanów and 15 from Solec-Zdrój) and qualitative research—IDIs with leaders of tourism entrepreneurship from Krasnobród, Solec-Zdrój, and Rymanów. Questionnaires were constructed on the basis of theoretical division into economic and institutional support. The questionnaire was extensive (it concerned many research problems). The topics presented in this article concern these selected research problems:

- What is the level of investment and what characteristics determine it?
- What types of investments dominate and do they translate into further investment plans?
- What are the motives/barriers to investment?
- What support instruments exist?

In the study, 12 questions (46 variables in total) and 2 metric questions (locality, company development dynamics) were used to describe the problems. CATI research targeted the local business leaders in the tourism sector. Qualitative research is a complement to quantitative research and helped to resolve problems that elude a survey.

Selection of a sample for qualitative research need not be representative in a statistical sense. The targeted selection of interviewees allows you to reach people who have relevant and important information. As a result of analyses of collected quantitative data and conversations with local government authorities and entrepreneurs from spa towns, 9 business leaders were selected (3 in each community). Using the IDI technique, the qualitative data were obtained to expand information on the third and fourth research questions.

### 3 Characteristics of the research area

#### 3.1 Characteristics of the surveyed enterprises

In the CATI survey were companies from the tourism sector: agritourist, commerce, services, transport and accommodation (hotels/guesthouses). These were mostly small businesses. 50 of them (82%) had less than 10 employees. The surveyed companies differed in market timing and economic condition (19 defined the dynamics of growth as a downward trend, 27 as stable, and 15 as growth).

#### 3.2 Characteristics of the municipalities

The municipalities that took part in the research had a spa-touristic nature. However, analyses of the collected empirical evidence show the differences between them:

- Krasnobród is mainly a tourist resort. There is a Rehabilitation Sanatorium for Children. The main attraction of Krasnobród are tourist attractions and its microclimate, and the main investment is a water reservoir on the Wieprz River. Investments focus only on the attractions of Krasnobród, bypassing the other villages. Most companies indicated moderate growth in their companies, while one in four indicated a downward trend.
- Solec-Zdrój is primarily a spa resort. The main attraction of Solec-Zdrój is sulphide water, considered to be the best in the world. The spa offer is supplemented by “Malinowy Zdrój” (Medical Spa complex with sports facilities). An additional advantage is a Spa Park with a pump room and indoor swimming pool. Both entrepreneurs and representatives of the municipality do not pay attention to the potential of the municipality tourist. Nearly half of the surveyed companies were in stable economic condition, the others pointed to an upward trend.
- Rymanów is a municipality where tourist and spa services are provided. It consists of a complex of sanatorium buildings, a Spa Park, and several pump rooms. It is also a tourist base including hotels, vacation homes and guest houses. Although Rymanów is the investment center of the municipality, investments also include all villages with numerous tourist attractions. In spite of the wide range of health resorts, half of the entrepreneurs indicate that the growth dynamics of their companies is stable while every third one pointed to a downward trend.

### 4 SME investment activity

The development of the tourist region depends on increasing the competitiveness and attractiveness of the region. On the one hand, it is related to the enrichment of the tourist potential of the region with new elements, especially the infrastructure. On the other hand, it is related to the improvement of the current development through modernization and upgrading of tourist facilities. Investments made by SMEs are a significant part of this process.

#### 4.1 Nature of SME investment activity

Entrepreneurs from the tourism sector are eager to invest. 62,3% of respondents (CATI) declared that they invested in fixed assets during the 36 months preceding the survey. The most frequent were investment development (57,9% of the investment) and modernization investments (63,2% of

**Tab. 1.** The percent of entrepreneurs who declared making investments within 36 months, and its type (in %)

| Commune                    | Percent of entrepreneurs | Type of investment <sup>a</sup> |               |             |
|----------------------------|--------------------------|---------------------------------|---------------|-------------|
|                            |                          | Reconstruction                  | Modernization | Development |
| Krasnobród                 | 80,0                     | 25,0                            | 68,8          | 62,5        |
| Rymanów                    | 42,3                     | 45,5                            | 54,5          | 54,5        |
| Solec Zdrój                | 73,3                     | 18,2                            | 63,6          | 54,5        |
| Total (for three communes) | 62,3                     | 28,9                            | 63,2          | 57,9        |

<sup>a</sup>Entrepreneurs who declared that the investment was made were asked to indicate what type of investments they were (the entrepreneur could choose more than 1 answer).

**Tab. 2.** The economic situation of the company (in %)

| Commune                    | Downward trend | Stable trend | Growing trend |
|----------------------------|----------------|--------------|---------------|
| Krasnobród                 | 25,0           | 70,0         | 5,0           |
| Rymanów                    | 46,2           | 23,1         | 30,8          |
| Solec Zdrój                | 13,3           | 46,7         | 40,0          |
| Total (for three communes) | 31,1           | 44,3         | 24,6          |

the investment). Rarely mentioned were replacement investments (28,8%).<sup>2</sup> 15,8% of entrepreneurs made more than one type of investment.<sup>3</sup>

The analysis of data on the investment process showed that there are differences regarding the level of investment in the analyzed spa communities. Among the respondents, 80% of companies from Krasnobród, 73,3% from Solec-Zdrój and only 42,3% from Rymanów submitted declarations regarding the investment implementation. These differences should be explained by the specificity of the community and the dynamics of development of the surveyed companies. At the community level, however, there are no differences in the types of investments (only in Rymanów there are more replacement investments than in other communities—this is an old spa resort, so it is often necessary to replace the equipment). Enterprises that develop steadily or dynamically invest more often than companies whose growth has declined. Agro-tourism owners, service providers and health industry representatives are more likely to invest than hotel/guest owners and retailers.

Entrepreneurs from Krasnobród and Solec-Zdrój more often make investments because, as the dynamics of their companies' development indicate, it is stable or growing. The situation in Rymanów is a bit different—nearly half of the owners of companies from this community showed a downward trend in the dynamics of business development.

There is a strong connection between the realized and planned investments. Moreover, entrepreneurs who invested in the 36 months preceding the survey more often plan to invest—67,7% ( $\chi^2 = 22,133$ ,  $p < 0,05$ ;  $\phi = 0,489$ ,  $p < 0,01$ )<sup>4</sup> than those who did not invest before—32,3%. Entrepreneurs invest in known (safe) investments that bring them the expected results.

## 4.2 Sources of SME investment activity

According to entrepreneurs, the source of investment is the desire to maintain or improve their market position, improve the quality of their products/services and reduce their operating costs. The entry into new markets was the least important in the investment process (tab. 3). Entrepreneurs who invest strongly relate to the motives and effects of investments. According to entrepreneurs (IDI), investments are necessary because “there is no other way out,” “you can not stand in place.”

2. [In the journal European practice of number notation is followed—for example, 36 333,33 (European style) = 36 333.33 (Canadian style) = 36,333.33 (US and British style).—Ed.]

3. Investment development—the expansion of the productive/service potential of a company by introducing a new product/service; modernization investments—improving the efficiency and effectiveness of the company and reducing costs; replacement investments—replacement of machines or old equipment.

4. Chi-square test with Yates's continuity correction, and phi—measure of association.

**Tab. 3.** Motives of investments and effects (compliance of motives with the effects of implemented investments) of SMEs' investments (in %)

|  |      |
|--|------|
| Entry into new markets . . . . .                   | 49,2 |
| Forcing customers to invest . . . . .              | 69,2 |
| Compliance with regulations or standards . . . . . | 75,4 |
| Shorter lead time. . . . .                         | 80,0 |
| Reduce operating costs. . . . .                    | 80,0 |
| Improving the quality of products and/or services  | 93,8 |
| Maintaining or improving market position . . . . . | 92,3 |

The main reason for investing is maintaining a competitive position on the market. Investment activities have several sources:

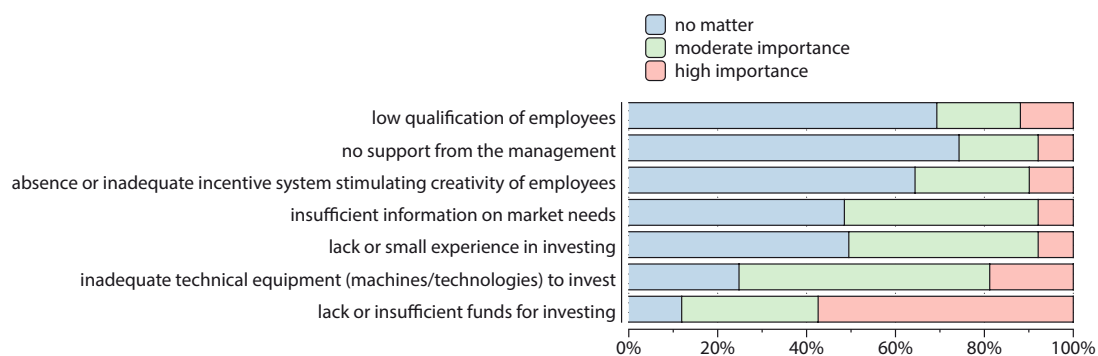
- adapting to customer needs/adapting to different types of client —the need to improve accommodation and nutrition standards and match it with a diversified client portfolio (wealth),
- increasing attractiveness —expanding the scope of services provided; investing in something “extra” —something that others do not have in the immediate surroundings; the need to invest in specialized staff (improves the quality of the treatment) and infrastructure (here in the spa parks) was important in the health sector, and
- fulfillment of legal standards—this motif indirectly results in raising standards of accommodation and food.

Entrepreneurs pointed to an additional motive for investing, namely the need to diversify sources of income. Private sector leaders run two to three companies operating in different industries. Among health sector representatives, emphasis has been placed on the gradual implementation of the commercialization of services.

### 4.3 Barriers to SME investment activity

SME investment is limited by numerous barriers that have their roots inside the company and in the company environment (fig. 1). According to entrepreneurs in the tourism industry, the investment process is limited by lack of funds or insufficient financial resources (nearly 90% of respondents). Half of the respondents said that difficult access to external financing was highly important. In addition, insufficient technical equipment is a significant investment limitation. Factors outside of the company are more important. Barriers to SME investment activity are presented in figure 2. Apart from external financing, entrepreneurs pointed to excessive bureaucracy (81,2%), economic risk (78,2%) and unfavorable state policy (78,2%). Nearly 70% of the respondents indicated that investments were limited by low demand in the region.

According to business leaders (IDI), the main problem is the difficulty of obtaining EU funding. Co-financing for soft projects is easier than co-financing for investments. The health care industry is underfunded and has a poor infrastructure. The second barrier is bureaucracy, especially at central government level. Bureaucracy and excess of documentation are linked to legal procedures. The third barrier to investment development is the market which is defined as “weak.” Most of the

**Fig. 1.** Internal barriers to SME investment

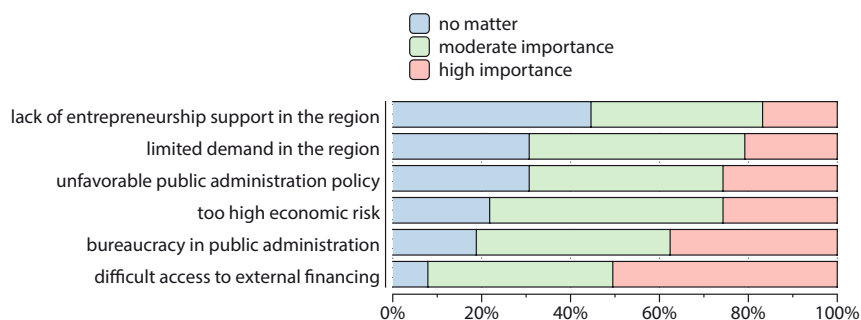


Fig. 2. External barriers to SME investment

investment is limited to accommodation and catering. Communities are improving the infrastructure in public space. There are no additional attractions to attract tourists.

#### 4.4 Support of SME investing activity

Both at the local and the central level there are many supporting instruments for entrepreneurs. Unfortunately, entrepreneurs often do not know them. The scientific expertise and the support of investment funds are particularly poorly recognized and used by entrepreneurs from the tourism sector. The most popular were the use of information on standards, national and EU subsidies, loans, bank guarantees and loans, assistance in preparing the application for EU funds and training in marketing and promotion. The knowledge of instruments supporting entrepreneurship, especially for SMEs is presented in table 4.

Entrepreneurs who made an investment compared to those who did not invest more often knew and used:

- research and advisory instruments—assistance in developing a business plan, assistance in developing an application for EU funds, legal advice,
- financial instruments—national and EU grants,

Tab. 4. Knowledge of instruments supporting entrepreneurship (in %)

| Instruments  | Unknown | Known / not used | Known/used |
|--|---------|------------------|------------|
| <b>Research and consulting</b>   |         |                  |            |
| • support in developing a business plan . . . . .                                  | 22,8    | 51,5             | 25,7       |
| • support in developing an application for EU funding                              | 18,8    | 47,5             | 33,7       |
| • using forecasts of institutions for economic change .                            | 42,6    | 44,6             | 12,9       |
| • scientific expertise . . . . .   | 67,3    | 25,7             | 6,9        |
| • legal advice . . . . .   | 45,5    | 27,7             | 26,7       |
| <b>Financial</b>   |         |                  |            |
| • loans and bank guarantees . . . . .  | 5,9     | 57,4             | 36,6       |
| • national and EU grants . . . . .   | 10,9    | 48,5             | 40,6       |
| • external investors, investment funds, business angels                            | 66,3    | 24,8             | 8,9        |
| <b>Information</b>   |         |                  |            |
| • information about standards in the tourism sector .                              | 27,7    | 31,7             | 40,6       |
| • information about the latest research results. . . . .                           | 39,6    | 33,7             | 26,7       |
| • information on EU programs to support investment in the tourism sector . . . . . | 39,6    | 34,7             | 25,7       |
| • information on national and international tourism programs. . . . .              | 43,6    | 32,7             | 23,8       |
| <b>Training</b>  |         |                  |            |
| • training on the use of EU tourism support programs                               | 35,6    | 41,6             | 22,8       |
| • training in investment project management in the tourism sector . . . . .        | 42,6    | 35,6             | 21,8       |
| • marketing and promotion training . . . . .                                       | 28,7    | 40,6             | 30,7       |
| • training in the protection of intellectual property . .                          | 45,5    | 33,7             | 20,8       |

- information instruments—information on EU programs to support investment in the tourism sector, and
- training tools—training in project management, marketing and promotion, intellectual property protection.

Companies know the funds available through the City Council. Local governments also offer legal aid and training. Communes on behalf of entrepreneurs also conduct national and local marketing and promotional campaigns.

## Conclusions

The effects of investing activity in tourism companies translate into higher customer expenditures (higher levels of satisfaction, higher quality of the offer) that create direct effects in the multiplier. This, in turn, contributes to the increase in local residents' incomes and local budgets. This is confirmed by the results of research with experts, tourism entrepreneurs and local government representatives. They emphasized the effects of SME investments in the form of increased tourism, modernizing tourist infrastructure, increasing the income of the inhabitants of the municipality and improving the image (Inglot-Brzęk and Lewandowska 2017).

Representatives of SMEs in tourist and health resorts are eager to invest using environmental values. Modernization of existing and new infrastructure is of dual importance. On the one hand it contributes to the attractiveness of the community, on the other hand contributes to the integration of tourism with other sectors of the economy. Despite the investment barriers (mainly financial and “weak” market) we see the emergence of entrepreneurial culture in tourist and health resorts. The drive for investment is the effect of investments already made. Hence, entrepreneurs who have invested have planned further investments. They are also planning to make the same type of investment. For example, entrepreneurs who have made development investments also plan to make development investments in the following years (81,5%), and in addition to modernization (66,7%) and reconstruction (25,9%) (tab. 5).

Finally, it is worth pointing out the need for a specific promotion of entrepreneurial tourism, especially information, advisory and research instruments, among entrepreneurs from the tourist and health resorts.

**Tab. 5.** The relation between types of investment made and planned (in %)

|          |                | Planned     |               |                |
|----------|----------------|-------------|---------------|----------------|
|          |                | Development | Modernization | Reconstruction |
| Realized | Development    | 81,5        | 66,7          | 25,9           |
|          | Modernization  | 50,0        | 80,8          | 34,6           |
|          | Reconstruction | 71,4        | 64,3          | 71,4           |

*Note:* These were multiple choice questions, so it does not add up to 100%. Percentage calculated by made investment (for detailed explanation, how the numbers were calculated, see the text).

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