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FACTORS AFFECTING THE PERFORMANCE OF ACCOMMODATION ENTERPRISES IN LATVIA

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Abstract. Tourism, including the accommodation industry, is a significant source of export revenues. The research aim is to examine the factors affecting the performance of accommodation enterprises in Latvia. The research novelty involves the factors affecting the performance of accommodation enterprises, which were identified and analysed employing correlation analysis. In the present research, the authors found that the global economic crisis significantly influenced the accommodation industry's growth in Latvia, especially in 2009; yet, in 2010 the situation stabilised. In 2011, the accommodation industry started growing. However, the pre-crisis indicators have not yet been reached in this industry, and its growth is moderate. The key factors affecting such indicators of enterprises of the accommodation industry as turnover, value added and net income or losses of businessmen are (1) number of foreign tourists serviced at accommodation establishments in Latvia; (2) number of domestic tourists serviced at accommodation establishments; (3) number of overnight (day and night) stays by foreign tourists in Latvia and (4) number of overnight (day and night) stays by domestic tourists in Latvia. Most of the individuals serviced at Latvia's tourist accommodations were foreign tourists, the proportion of which at Riga's tourist accommodations exceeded even 70%. Outside Riga region, more than 70% of the visitors of tourist accommodations were domestic tourists, mainly business tourists. The greatest share of the accommodation industry's value added and turnover was provided by the regions of Riga and Pieriga. The contribution of the other regions was insignificant.

Key words: accommodation industry, affecting factors, hospitality industry.

JEL code: M21, R11

Introduction

Latvia's government policy documents: the National Development Plan of Latvia for 2014-2020 and the Guidelines on Promoting Exports of Latvian Goods and Services and Attracting Foreign Investments for 2013-2019 define that exports are the key driver of Latvia's economic

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growth. Tourism is one of the leading export industries in the world. It is also one of the most competitive sectors of Europe's economy (Ministry of Economics, 2014).

In Latvia, too, tourism is regarded as one of the country's economic development opportunities and priorities for the sector of services, as it is a significant source of export revenues, considerably contributing to the country's GDP. In 2012 in Latvia, the value of tourism services sold totalled EUR 580.5 million, comprising 16.5% of the total value of exports of services and 4.3% of the total value of exports of goods and services (Ministry of Economics, 2014). The tourism industry has a large multiplier effect – its growth stimulates the demand for public catering, transport, health care, entertainment and trade services.

A significant component of any tourism industry is hospitality industry, which is comprised of providers of public catering and accommodation services. For this reason, it is important to ascertain what factors determine the performance of accommodation enterprises.

The research hypothesis is as follows: the number of domestic tourists makes a greater effect on the performance indicators of accommodation enterprises than the number of foreign tourists serviced at tourist accommodations. The research aim is to examine the factors affecting the performance of accommodation enterprises in Latvia.

Based on the research aim, the following specific research tasks were set: (1) to examine changes in the performance indicators of accommodation enterprises in Latvia; (2) to identify the factors affecting the performance of accommodation enterprises; (3)to analyse the factors affecting the performance of accommodation enterprises.

The research object is businessmen providing accommodation services. The research subject is the affecting factors. The period of analysis was from 2008 (the base year and the pre-crisis year) to 2013.

The present research is based on the CSB survey data. The documents produced by the Ministry of Economics as well as Eurostat data were used to achieve the aim, execute the tasks and prove or reject the hypothesis. The following research methods were employed: the monographic method, statistical analysis methods, synthesis and analysis, Pearson's correlation analysis.

The research novelty involves the factors affecting the performance of accommodation enterprises, which were identified and analysed employing correlation analysis.

Research results and discussion

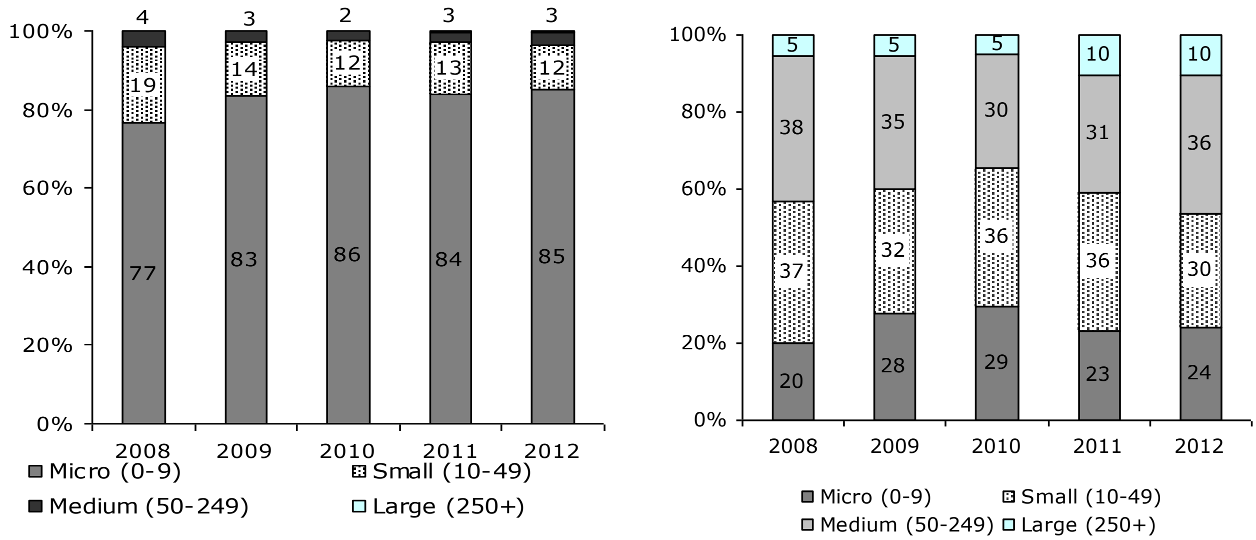
1. Statistical analysis of the performance indicators of accommodation enterprises

One of the indicators showing the situation with accommodation enterprises is their number that moderately (less than 10% a year) grew from 681 in 2008 to 765 in 2012 in the period of analysis. As the number of enterprises grew, the number of bed places also increased from 29 591 in 2008 to 36 901 in 2012.

In general, the local hotel market is clearly dominated by local hotel operators and has only four international hotel chains present: *Rezidor, Wyndham, Choice Hotels and Best Western* (Colliers International, 2014).

After analysing the regional locations of tourist accommodations and bed places, one has to conclude that differences exist. Tourist accommodations mainly concentrate in Riga and its vicinity and along the Baltic seashore, the river of Gauja and two key Panbaltica tourism roads (*Via Baltica* and *Via Hanseatica*). Rural tourist accommodations are mostly offered next to water basins and at places of beautiful landscape (Ministry of Economics, 2014).

Micro-enterprises mostly dominate in the accommodation industry in Latvia, and during the economic recession, especially in 2009, their number and proportion increased (Figure 1).



Number of enterprises **Number of employed individuals**

Source: authors' construction based on the Central Statistical Bureau of Latvia, 2014

Fig.1. **Percentage distribution of the numbers of enterprises and employed individuals in the accommodation industry in Latvia in the period 2008-2012**

The authors explain an increase in the number of micro-enterprises by a reduction of formal bureaucratic procedures for this category of enterprises when the standards regarding providing public catering services at rural tourist accommodations set by the Food and Veterinary Service and the hygiene standards for bathrooms of rural tourist accommodations were eased (Ministry of Economics, 2014). The rising standards after Latvia's accession to the European Union on 1 May 2004 were an essential hindering factor for the tourism industry (Millere, 2009).

In 2009 and 2010, the number and proportion of small and medium enterprises decreased. As shown in Figure 1, the number and proportion of small and medium enterprises were insignificant. At the beginning of the period of analysis, only one large accommodation enterprise operated in Latvia, while in 2011 there were two such enterprises.

In the period 2008-2012, accommodation micro-enterprises employed, on average, 25% of the total employees in this industry (Figure 1).

In 2009 and 2010, the number of employed individuals in the industry declined by 19% (1312 individuals) and 5% (254 individuals), respectively; in micro-enterprises, the number of employed individuals rose by 12% (or 157 individuals) and 1% (or 20 individuals). In this period, the number of employees in enterprises of the other size categories decreased, especially in the category of medium enterprises. On average, 34% of the total employees were employed in the categories of medium and small enterprises.

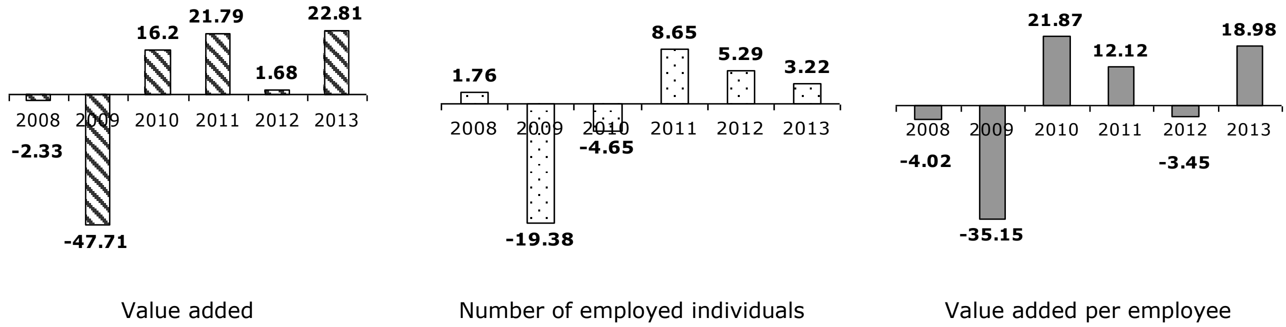
In 2011, a considerable increase in the number of employees was observed in the category of large enterprises (132%) because, as mentioned before, one more large business entity entered the market. It is also reflected in the increase in the proportion of employees of the category of large enterprises in 2011. In 2011 and 2012 in the industry, on the whole, the number of employees rose in Latvia, reaching 5 654 and 5 964 individuals, respectively.

A similar percentage distribution of employees by size category of enterprises in the accommodation industry might be observed in the European Union (EU-27): of the total number of employees engaged in the accommodation industry, 24.0% were employed in micro-enterprises, 32.4% in small, 24.5% in medium and 19.1% in large enterprises (2010 data) (Eurostat, 2013).

In 2010, 267 thousand businessmen operated in the accommodation industry in the EU-27, which employed 2.3 million individuals or almost a fourth (23.0 %) of the employees employed in the hospitality industry (Eurostat, 2013). In the period of analysis in Latvia, almost a fifth (on average, 20%) of the employees employed in the hospitality industry were engaged in the accommodation industry, which totalled 5 865 individuals on average.

After comparing the numbers of employees in the industry in 2012 and 2008, one can conclude that the numbers of employees exceeded the level of 2008 only in the categories of micro- and large enterprises, reaching 106% and 173%, respectively. In the category of small enterprises, the number of employees in 2012 stood only at 70% of the level of 2008; the situation for the category of medium ones was slightly better, 84%. In 2012 in the country, on the whole, employment in the industry reached only 88% of the level of 2008. A similar trend was characteristic of the tourism industry in the entire world: in 2009, the flow of international tourism decreased by 4% and almost 5 million jobs were liquidated in the tourism industry, whereas after growth for three years only 4 million new jobs were created in this industry (Ministry of Economics, 2014).

Value added is also an indicator showing the industry's growth. Value added shows an increase in the market value of a product, which resulted from economic activity. It is calculated by deducting the value of goods and services used in production (Central Statistical Bureau of Latvia, 2014) (Figure 2)



Source: authors' calculations based on the Central Statistical Bureau of Latvia, 2014

Fig.2. **Annual changes in the indicators of the accommodation industry in Latvia in the period 2008-2013**

A decrease in value added in Latvia started already in 2008 when most of the indicators of the industry presented growth. The decrease in value added was determined by a 4.88% decline in the number of domestic travellers. A significant decrease in value added, 47.71%, was observed in 2009, too, when the domestic demand for tourism services fell owing to the economic crisis and the declining purchasing power of domestic residents and businessmen; consequently, the number of domestic tourists serviced at tourist accommodations decreased by more than 41.10% in 2009, i.e. two times more than that of foreign visitors in Latvia (20.20%).

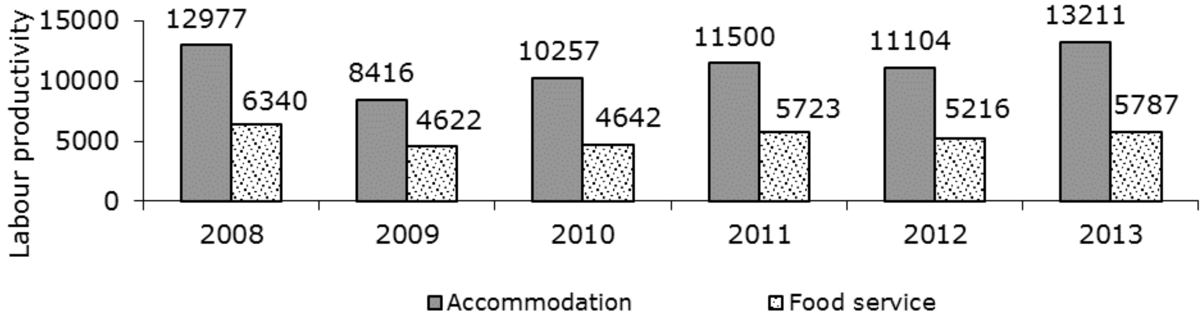
Since 2010, this indicator has gradually increased in Latvia, especially in 2011 and 2013, as from that year onwards a stable surge in the numbers of foreign and domestic tourists has been observed in the country. Also in 2012 the small increase in value added may be explained by the authors by the moderate increase in the number of visitors.

In the period of analysis, the accommodation industry in Latvia created 35.6% on average of the value added of the hospitality industry, while in 2010 in the EU-27 the accommodation industry contributed to almost a third (32.4%) of the hospitality industry's value added (Eurostat, 2013).

Similar trends were observed also for the indicator "turnover" – the revenue from sales of goods and services less discounts as well the value added tax and other direct taxes on sales (Central Statistical Bureau of Latvia, 2014).

An analysis of the indicator "value added per individual employed in the industry" reveals that it tended to decrease by 3.45% in 2012, as an increase in the value-added chain lagged behind the increase in the number of individuals employed in the industry.

The indicator "turnover" did not reach the level of 2008 neither in 2012 nor in 2013, while the indicator "value added per individual" in the accommodation industry exceeded the 2008 level by 2% in 2013 (Figure 3).



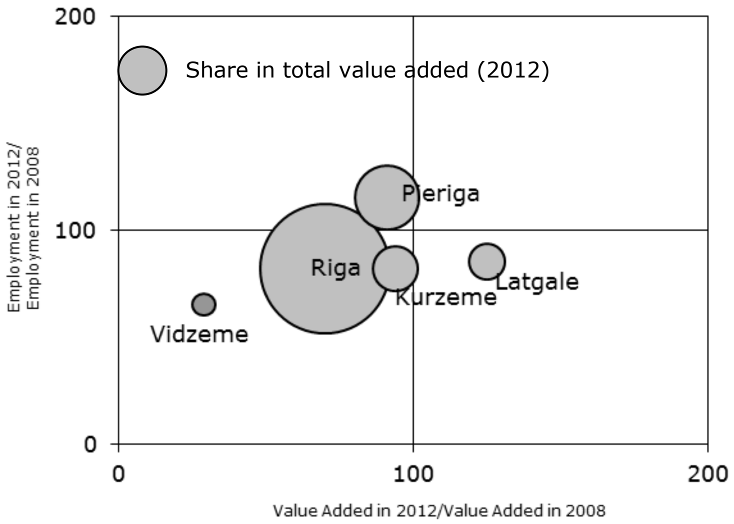
Source: authors' construction based on the Central Statistical Bureau of Latvia, 2014

Fig.3. **Average value added per employee (or labour productivity) in the accommodation industry and the industry of catering services in Latvia in the period 2008-2013, EUR**

Labour productivity in the accommodation industry in the EU-27 in 2010 reached EUR 27 200 per employee, which was significantly above labour productivity in the hospitality industry (EUR 19 300). As shown in Figure 3, over the entire period of analysis, labour productivity in the accommodation industry in Latvia was higher than in the industry of public catering services. The low labour productivity in the European Union and Latvia in part was associated with a trend of part-time employment dominance in the industry (Eurostat, 2013).

In 2010, labour productivity in the accommodation industry in Latvia was 2.7 times lower than in the EU-27 on average.

An analysis of the changes in value added and in the number of employees in Latvia's regions in 2012 compared with 2008, shows that the increases of both indicators were observed only for Zemgale region. The increases are not shown in Figure 4, as the increases were impressive: the change in value added was 496%, while that in the number of employed individuals was 349%. In 2012, compared with the base year (2008=100), an increase in the number of employed individuals was observed in Pieriga region, while an increase in value added was reported in Latgale region. In the other regions of Latvia (Riga, Kurzeme and Vidzeme), the indicators analysed did not reach the level of 2008. A very large decrease was observed in Vidzeme region.



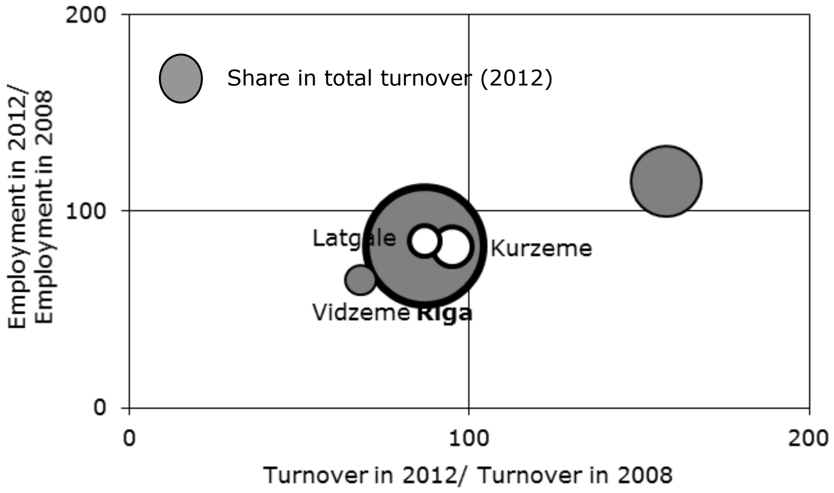
Source: authors' construction based on the Central Statistical Bureau of Latvia, 2014

Fig.4. **Changes in value added and in the number of employees in the accommodation industry in Latvia's regions in 2012 (2008=100)**

As shown in Figure 4, Riga region contributed most (65%) to value added in the accommodation industry in 2012 and in the entire period of analysis. The contributions of the regions of Pieriga and Kurzeme were 16% and 8%, respectively, while the other regions' share even did not exceed 5%. An analysis of the percentage distribution of the number of individuals serviced at tourist accommodations reveals a similar situation: 60.1% of the total individuals were received and serviced at tourist accommodations in Riga region; 15.4% in Pieriga region, 12.1% in Kurzeme region, 5.0% in Vidzeme region, 4.1% in Latgale region and only 3.3% in Zemgale region. An analysis of the percentage distribution of the number of foreign visitors serviced at tourist accommodations reveals a similar situation, too: 77.5% of the total foreign visitors were received and serviced in Riga region; 12.0% in Pieriga region, 6.0% in Kurzeme region, while the number of foreign visitors in the other regions of Latvia did not exceed 2%. Any changes in the percentage distribution of the number of visitors did not take place in the period of analysed by the authors (Central Statistical Bureau of Latvia, 2014).

An analysis of the changes in value added and in the number of employees in Latvia's regions in 2012 compared with 2008, shows that the increases of both indicators were also observed only for Zemgale region. The increases are not shown in Figure 5, as the increases were impressive: the change in value added was 907%, while that in the number of employed individuals was 349%.

In 2012 compared with 2008, an increase in turnover was reported only in Pieriga region. In the other regions, the indicator analysed even did not reach the level of 2008. An especially sharp decrease was observed in Vidzeme region.



Source: authors' construction based on the Central Statistical Bureau of Latvia, 2014

Fig.5. **Changes in turnover and in the number of employees in the accommodation industry in Latvia's regions in 2012 (2008=100)**

As shown in Figure 6, Riga region contributed most (61%) to turnover in the accommodation industry in 2012 and in the entire period of analysis. The contributions of the regions of Pieriga and Kurzeme were 22% and 7%, respectively, while the other regions' share even did not exceed 4%.

The global economic crisis significantly affected the profit or loss of businessmen doing business in the accommodation industry. On the whole, this industry suffered losses already in 2008, even though in 2007 the industry made a profit of EUR 33.7 million. In 2009, the losses reached a maximum level – EUR 48.2 million – in the period of analysis. In the next years, the losses decreased, and in 2013 the industry made a small profit (Statistical Bureau of Latvia, 2014).

2. Correlations between and the analysis of the affecting factors

To identify the factors being able to affect the performance indicators of enterprises of the accommodation industry: turnover; value added; number of individuals employed in the accommodation industry and net profit or loss of businessmen, the authors performed a pair correlation analysis. The following indicators were assumed as dependent variables: (1) number of foreign tourists serviced at tourist accommodations in Latvia; (2) number of domestic tourists serviced at tourist accommodations; (3) number of overnight stays by foreign tourists in Latvia; (4) number of overnight stays by domestic tourists in Latvia; (5) expenses of Latvia's tourists on recreational trips in Latvia (thousand EUR); (6) expenses of Latvia's tourists on business trips in Latvia (thousand EUR); (7) expenses of foreign tourists in Latvia (million EUR); (8) number of employees in Latvia; (9) net average monthly wage of employees in Latvia (EUR). The main results of the correlation analysis are presented in Table 1.

Table 1

Correlation analysis results for the period 2005-2013

Indicator	Turnover	Value added	Number of employees	Profit or loss of businesses
Number of foreign tourists in Latvia				
Correlation coefficient	0.734 *	0.245	0.454	0.097
P-value (2 tailed)	0.024	0.525	0.220	0.818
Number of domestic tourists				
Correlation coefficient	0.913 **	0.848**	0.020	0.725*
P-value (2 tailed)	0.001	0.004	0.959	0.042
Number of overnight stays by foreign tourists in Latvia				
Correlation coefficient	0.801**	0.326	0.455	0.182
P-value (2 tailed)	0.009	0.393	0.218	0.666
Number of overnight stays by domestic tourists in Latvia				
Correlation coefficient	0.733*	0.930**	-0.020	0.744*
P-value (2 tailed)	0.025	0.000	0.960	0.034
Number of employed individuals in Latvia				
Correlation coefficient	0.228	0.708*	-0.187	0.587
P-value (2 tailed)	0.555	0.033	0.630	0.126

**** - Correlation is significant at the 0.01 level; * - Correlation is significant at the 0.05 level**

Source: authors' calculations using SPSS

The correlation coefficients indicate that there is a strong positive linear relationship between the turnover and such factors as the number of foreign tourists in Latvia (r=0.734), the number of domestic tourists (r=0.913), the number of overnight stays by foreign tourists in Latvia (r=0.801) and the number of overnight stays by domestic tourists in Latvia (r=0.733), which means that an increase in each independent variable leads to an increase in the industry's total turnover. The p-values indicate that the differences between the groups researched are statistically significant.

As shown in Table 1, there is a strong positive correlation between the value added and such factors as the number of domestic tourists (r=0.848), the number of overnight stays by domestic tourists in Latvia (r=0.930) and the number of employees in Latvia (r=0.708). This means that an increase in each independent variable results in an increase in vale added. The p-values indicate that the differences between the groups researched are statistically significant.

The correlation coefficients indicate that there is no strong positive relationship between the number of individuals employed in the accommodation industry and the factors selected by the authors but there is a medium strong positive linear correlation between such factors as the number of foreign tourists in Latvia (r=0.454) and the number of overnight stays by foreign tourists in Latvia (r=0.455), while the p-values indicate that the differences between the groups researched are not statistically significant.

Table 1 data show that there is a strong positive relationship between the profit or loss of businessmen and such factors as the number of domestic tourists (r=0.725) and the number of overnight stays by domestic tourists in Latvia (r=0.744). This means that an increase in each independent variable leads to an increase in businessmen's profit or loss as well. The p-values show that the differences between the groups researched are statistically significant. Among the factors that were selected as dependent variables but were not presented in Table 1, there is a weak and insignificant relationship, while the p-values indicate that the differences between the groups researched are not statistically significant.

3. Analysis of the affecting factors

After Latvia's accession to the European Union, the number of tourists serviced at tourist accommodations in Latvia gradually rose and reached almost 1.6 million in 2008, whereas in 2009 this number fell by 28%.

In the period 2008-2013, on average, 66% of the individuals serviced at tourist accommodations were foreign tourists. This means that, on average, only 34% were domestic tourists.

The proportion of foreign tourists serviced at tourist accommodations in Riga even exceeded 77%, while that of foreign tourists in the rest of Latvia was 23% on average in the period of analysis. It means that outside Riga region, more than 75% of the visitors registered at tourist accommodations were domestic tourists.

In the period 2008-2013, no significant changes took place in the percentage distribution of the number of individuals serviced at tourist accommodations, while in 2009 the share of foreign tourist increased owing to considerable changes in the number of domestic tourists.

An analysis of the number of overnight stays (every night a visitor actually spends (sleeps or stays) or is registered at a collective or private tourist accommodation) (Tourism in Latvia..., 2014k) reveals similar trends.

In the period of analysis on average 60% of the total overnight stays in Latvia took place at tourist accommodations in Riga. The greatest share of the total overnight stays in Latvia was composed of overnight stays by foreign visitors. In the period of analysis, most of the foreign visitors stayed overnight at tourist accommodations in Riga. This means that outside the country's capital city, mainly domestic tourists used to stay overnight. It is also important to examine the kinds of tourist accommodations local tourists prefer (Table 2).

Table 2

Percentage distribution of the number of overnight stays by domestic tourists by place of stay in Latvia in the period 2008-2013

Indicators	2008		2009		2010		2011		2012		2013	
	Recreational and other personal trips	Business trips	Recreational and other personal trips	Business trips	Recreational and other personal trips	Business trips	Recreational and other personal trips	Business trips	Recreational and other personal trips	Business trips	Recreational and other personal trips	Business trips
Tourist accommo-dations	10	57	10	60	13	82	12	83	12	70	13	73
Private lodgings for the night	90	43	90	40	87	18	88	17	88	30	87	27

Source: authors' calculations based on the Central Statistical Bureau of Latvia, 2014

Table 2 data show that in the period of analysis, on average, 12% of the recreational trips with overnight stays were registered at tourist accommodations, while, on average, 88% at private lodgings for the night. In contrast, 29% of the business trips were registered at private overnight lodgings. According to Table 2, in the period of the crisis, business tourists mainly stayed at tourist accommodations rather than at private overnight lodgings. It means that most of the domestic visitors serviced at Latvia's tourist accommodations were business tourists. This also explains the fact why there is a strong correlation between the independent variable "value added" and the number of employees in Latvia (r=0.708).

Conclusions, proposals, recommendations

1. The global economic crisis significantly influenced the accommodation industry's growth in Latvia, especially in 2009; yet, in 2010 the situation stabilised. In 2011, the accommodation industry started growing. However, the pre-crisis indicators have not yet been reached in this industry, and its growth is moderate.
2. In Latvia in the accommodation industry, micro-enterprises dominate, which employ, on average, 25% of the total employees in this industry. The number and proportion of small and medium enterprises, which employ, on average, 68% of the total employees in the industry, are small.
3. The key factors affecting such indicators of enterprises of the accommodation industry as turnover, value added and net income or losses of businessmen are (1) number of foreign tourists serviced at accommodation establishments in Latvia; (2) number of domestic tourists serviced at accommodation establishments; (3) number of overnight (day and night) stays by foreign tourists in Latvia and (4) number of overnight (day and night) stays

by domestic tourists in Latvia. The research failed to identify the factors affecting the indicator "number of individuals employed in the accommodation industry".

4. Most of the individuals serviced at Latvia's tourist accommodations were foreign tourists, the proportion of which at Riga's tourist accommodations exceeded even 70%. Outside Riga region, more than 70% of the visitors of tourist accommodations were domestic tourists, mainly business tourists. The greatest share of the accommodation industry's value added and turnover was provided by the regions of Riga and Pieriga. The contribution of the other regions was insignificant.
5. To foster the growth of the accommodation industry in Latvia, the government, the tourism industry's public organisations and entrepreneurs have to carry out more active marketing campaigns, especially in the domestic market in order to contribute to the development of domestic recreational tourism.

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