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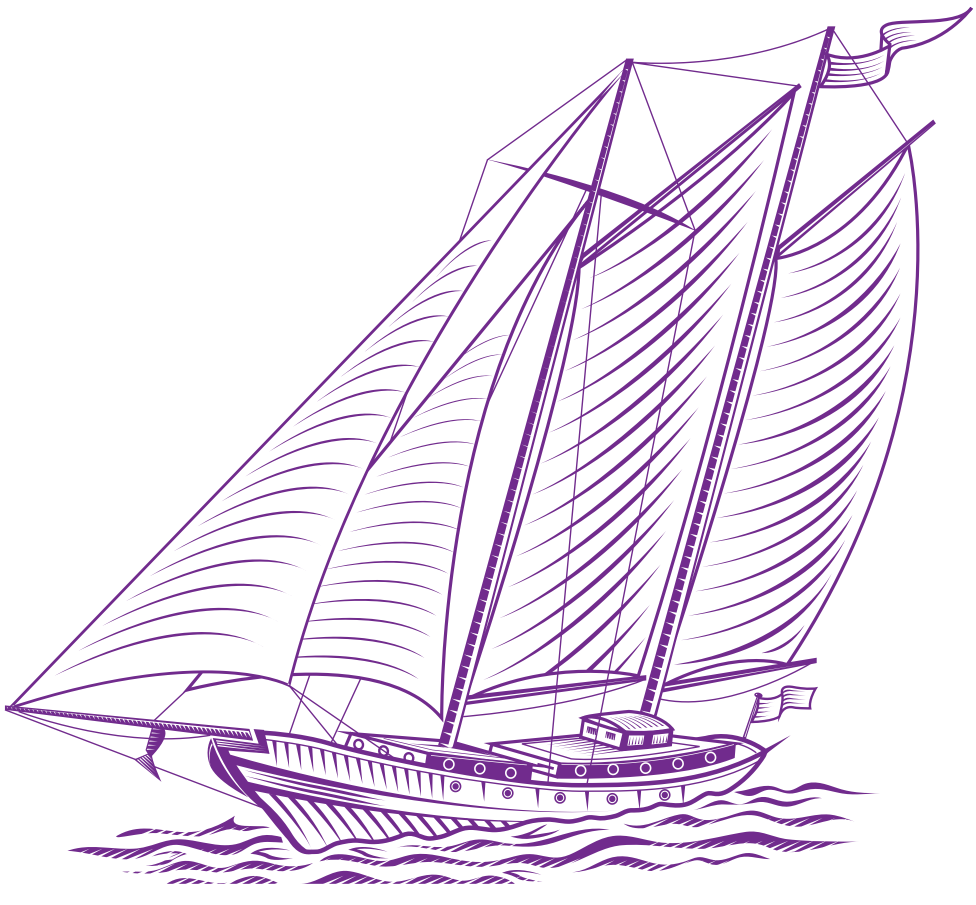

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FISCAL RULES AS ONE OF THE ELEMENTS OF THE INSTITUTIONAL ENVIRONMENT OF FISCAL POLICY

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ABSTRACT. For many years now, fiscal policy, based on certain rules, has become an alternative for the discretionary activities implemented by public authorities. Changes made in public finance are supplemented through the introduction of fiscal rules, the strengthening of their role and the creation of independent financial institutions. The basic objective of fiscal rules is the enhancement of public finance discipline, in particular, where it comes to its excessive relaxation. Nowadays, these rules match the characteristics of the transparent fiscal policy. However, it is worth emphasising that attaching normative nature to fiscal rules does not always result in the desired outcomes. Reduction of the effectiveness of fiscal rules may arise out of numerous reasons. The fiscal rules that are functioning both at the domestic and the supranational level should constitute an element that supports the implementation of the economic programme of particular governments.

The main objective of this paper is the presentation of fiscal rules as instruments of the institutional environment of fiscal policy, which function at both the domestic and the supranational level within the EU member states, and the discussion on selected domestic fiscal rules implemented in Poland.

Key words: fiscal policy, fiscal rules, budget deficit, public debt

JEL Classification: H61, H62, H11

1. Introduction and literature review

Fiscal policy is commonly defined as the aggregate activities of public authorities that exert influence on the shape of the state budget. Those activities refer both to the revenue side and the expenditure side of the budget. This

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policy is a part of the financial policy of a particular country and it constitutes the most powerful apparatus designed to affect the economy. Its significance becomes particularly relevant in the light of the Polish membership in the EU structures, as well as in the context of the distance between the Polish economy and other highly developed European countries.

As depicted in the literature on that subject, in the 80s, fiscal policy based on certain rules became an alternative for discretionary actions of public authorities undertaken at that time in politics. Fiscal rules may exert influence on the stabilisation of the economies of particular countries in various ways. Such issues have been subject to intense research (Bayoumi & Eichengreen, 1995; Fatas & Mihov, 2006; Andres & Domenech, 2006). The tendencies of change in contemporary public finances are supplemented through the introduction of fiscal rules or through the enhancement of their role, as well as the establishment of independent fiscal institutions. The basic objective of fiscal rules is the increase of public finance discipline of the member states. However, as it is reflected in the literature on the subject in question, they do not always bring the expected results (Milesi-Ferretti, 2004, von Hagen, Wolff, 2006). These rules function both at the supranational level - the provisions of the Maastricht Treaty and the Stability and Growth Pact constitute their basis - and they are supplemented at the level of particular countries. Fiscal rules may also be characterised by different efficiency. These issues have been broadly discussed in the following works: Brunila (2002), von Hagen (2005), or contemporarily Budina et al. (2012). Moreover, the literature on the subject in question indicates particular characteristics of various types of fiscal rules (Budina et al., 2012), or the features of an ideal fiscal rule (Kopits & Symanski, 1996).

The main objective of this paper is the presentation of fiscal rules as one of the instruments of the institutional environment of fiscal policy, which function at both the domestic and the supranational level within the EU member states, and the discussion on selected domestic fiscal rules implemented in Poland.

The role of fiscal rules

Fiscal rules introduced in many countries are treated as a useful tool in the fight against public finance crisis (Cilak, 2013, p. 40). They can be defined with the use of both a broad approach and a narrow one. In the case of the broad approach, fiscal rules constitute the whole of the regulations that affect the final shape of fiscal policy (Poterba, 1996). This definition encompasses formal institutional solutions that determine the so-called budget process. In the case of the narrow approach, a fiscal rule is usually understood as a quantitative limitation of the level of the deficit, the public debt or the government spending (Wajda-Lichy, 2004, p. 87).

Kopits & Symanski treat the fiscal rule as a permanent limitation of fiscal policy reflected in the budget ratios that indicate the progress of such policy (Kopits & Symanski, 1996, p. 2).

The literature on the subject in question indicates various classifications of fiscal rules. The most commonly mentioned criterion is the criterion of the character of the adopted institutional solutions, while distinguishing quantitative and qualitative rules. The first ones also referred to as numerical, take up the form of quantitative limits of selected budget categories (Wójtowicz, 2011, p. 138). The qualitative rules, in turn, impose some limitations on the amount of expenditures, taxes, deficit or public debt (Wajda-Lichy, 2004, p. 88). Another division of fiscal rules refers to their subject, thus we can talk about rules connected with activities undertaken by governmental and local-government sector. There are also rules that refer to the whole public finance sector.

Due to the legal basis that sanctions a particular rule, we can distinguish the following: constitutional rules, statutory rules and rules resulting out of strategies or programmes adopted by public authorities.

Taking into consideration the time factor, we can distinguish rules that refer to a short period of time, i.e. yearly or long-term rules (Wójtowicz, 2011, p. 139). Nowadays, an important criterion of the division of rules is the territorial range criterion which enables the separation of supranational and domestic rules (Marchewka-Bartkowiak, 2012, p.48).

Kopits & Symański (1996), while presenting the general characteristics of the fiscal policy rules, indicated the features of an ideal rule. According to them, ideal fiscal rules are characterised by the fact of being strictly defined and consequently perceived as a restricting ratio, which is connected with the existence of detailed clauses preventing from omitting a particular rule. Moreover, fiscal rules should be transparent, which is expressed in open activities of public authorities in the area of accountancy, forecasting and management of public institutions. Other features of an ideal rule are the following: its flexibility (enabling a reaction to external shocks), adequacy (reflecting the intended objective), enforceability (the given rule should be protected by statutory law and burdened with penal sanctions) and cohesion (compliance with other types of economic policy and the current macroeconomic situation). Additionally, the above-mentioned authors depicted two features, namely: Fiscal rules should be effective, i.e. guaranteed only in the case of being supported by political actions, reforms guaranteeing stability, and they should be uncomplicated – intelligible both to the public authorities and to the society (Kopits & Symanski, 1996).

The above-mentioned features are quite general, thus it is difficult to translate them to specific rules. Nevertheless, they can constitute some kind of an indicator by the assessment of currently functioning rules, both at the domestic and the supranational level, and show the direction of their modification (Budina et al., 2012, p. 8).

Butier (2003) formulates ten rules that appropriate fiscal rules should be characterised by. According to him, rules should be simple, they should ensure financial solvency of a State and refer to the whole public finance sector. They should not magnify cyclical fluctuations in economy; they should enable unrestricted operation of automatic stabilisers and should not anticipate the level of the fiscalization of the economy (Butier, 2003). Among other rules, Butier (2003) also enumerates the credibility of the rules, their functioning within a long period of time and in different stages of the development and structure of economies, their functioning both at the level of a particular country and a group of countries. Simultaneously, the rules should be implemented consistently, naturally and independently from political problems.

Fiscal rules become tools which inscribe in the characteristics of the transparent fiscal policy. Importance is ascribed mostly to the increase of the predictability of the activities undertaken within the public finance sector, which restrict the possibility of irresponsible actions of politicians. Indirectly, the functioning of the rules may compel the implementation of necessary system reforms (Piwowarski, 2011). Therefore, such rules may play a certain role for the financial situation of the State, especially the policy that relates to the future. Their significance consists in the preventive character, thus their goals is to prevent negative phenomena in the sphere of public finance. The rules become some kind of an obstacle for the prospective irresponsible fiscal expansion of public authorities, in particular the one referring to expenditures, which might lead to excessively deep imbalance between the liabilities of the State, and the sources of their coverage. As depicted by Owsiak (2013), the aim of fiscal rules is also the protection of the society against excessive burdens of the handling of the public debt, which constitute unproductive expense of the State. These burdens constitute the cost of the on-going budget imbalance (Owsiak, 2013, p. 7).

Nowadays, there are no doubts as to the necessity of effective management of public funds. It can be stated that there is common consent, especially after the latest financial crisis, as to the care for the condition of public finance. The established fiscal rules should enable the implementation of the economic programme of the government, with pre-designed framework that ensure the maintenance of macroeconomic stability (Postuła, 2011, p. 42).

Taking into account the significance and the meaning of fiscal rules, it is crucial to realise that public finance constitutes a political category. It means that the main subjects of the political system may, in connection with the narrowly and extemporaneously understood political interest (retention of power or political takeover), initiate unfavourable changes in public finance. The main reasons for such changes may be both unconsidered changes in the tax system (tax reliefs) and the excessive expansion of expenditures. Therefore, special significance is ascribed to the so-called political cycle (changing governments). Fiscal rules may exert influence on the changes of the financial situation of a country by virtue of the above-mentioned political cycle, the social-economic doctrines, expenditure doctrines, tax doctrines, etc., preferred by the government (Owsiak, 2013, p. 7).

Supranational fiscal rules

The main reasoning for the functioning of fiscal rules may be the assurance of macroeconomic stability of a particular country. It is not about activities in the traditional meaning of economic stabilisers, but primarily about protecting the economy against the extension of public sector. In practice, there is a possibility of anti-cyclical operation of fiscal rules, which does not have to constitute the basis of the implementation of such rules (Piwowarski, 2011, p. 255).

Nowadays, the use of fiscal rules is to serve well-balanced fiscal policy (von Hagen, 2004, p. 7). It constitutes an essential condition for the obtainment of well-balanced economic growth in a long-term perspective.

Pursuant to the provisions of Stability and Growth Pact, there are two supranational numerical rules – those referring to the budget deficit ratio at the level of 3% of GDP, and to the public debt ratio at the level of 60% of GDP. The directions set forth in the Pact intensify the necessity to respect the criteria through the requirement of obtaining a close balance of the budget or the budget surplus in the public finance sector in a medium-term perspective. It arises out of the fact that the countries applying for the Euro zone have undertaken actions (in the period of fulfilling the convergence criteria) to decrease fiscal parameters (Italy, Belgium). The experience gained by the application of the original version of the Stability and Growth Pact revealed the effectiveness of the Community authorities in implementing explicitly formulated reorganizational procedures (including sanctions of a financial character). The procedure of imposing fines on the Euro zone countries, in connection with the existence of excessive deficit and the lack of undertaking effective actions in order to reduce such deficit, remains purely theoretical

(Ciak, 2011a, p. 18). To support this conclusion one may indicate Eurostat data showing that between 1999 and 2008 (i.e. upon the establishment of the Euro zone) the average debt ratio for the Euro zone countries amounted to 69% of GDP and did not decline below the debt criterion, namely below 60% of the GDP.

At the same time, the average debt to GDP ratio in EU countries amounted to 61.6%. In 2010, the ratio oscillated around the level of 85.1% of the GDP for the Euro zone countries and 80% of the GDP for all EU countries (Ciak, 2012, p.179-180). Comparing this data to 2013, the situation did not improve considerably; the average public debt to GDP ratios amounted to 90% for the Euro zone countries (the indebtedness decreases, 2014), and 86.7% for EU countries. In the case of the budget deficit ratio and its relation to the GDP, the situation of most of the EU countries was similar and the deficit ratio tended to increase, especially during the crisis. According to the first estimates of the European Commission, the average ratio was reduced in 2013 for the Euro zone and it amounted to 2.1% of the GDP, while it amounted to 3.5% of the GDP for the whole EU.

Among the Euro zone countries one can indicate those which were unable to fulfil at least two of the above-mentioned fiscal rules for the whole period of the Euro zone membership. Those include: Belgium, Greece and Italy. The example of Greece shows that it is possible to be a Euro zone member which for the whole period of functioning in the area of common currency violates both of these criteria (in 2013 the Greek public debt in relation to the GDP oscillated around 170%).

Moreover, it turns out that a limited pressure exerted on the observance of the principles of Stability and Growth Pact also refers to countries that are regarded as stable ones, i.e. France, Germany or Austria. What is more, these countries were unable to fulfil one or two of the above-mentioned fiscal criteria for over a dozen years, taking into account the fifteen-year period of the functioning of the Euro zone (1999-2014). Thus, supranational fiscal rules do not constitute an effective solution for the disciplinary activity of the fiscal authorities in particular countries. This may result from an improper perception of fiscal rules and their role, as well as from the lack of any sanctions for their violation. The currently functioning system of penalties and obligations should constitute a tool ensuring proper functioning of a certain rule.

National fiscal rules, in turn, should be treated as a complementary tool for obligations imposed by the above-mentioned Pact. Fiscal rules at the national level become an element that facilitates the pursuance of fiscal policy in accordance with the most important prerequisites that constitute the basis of the reform of Stability and Growth Pact. This has been confirmed in the

European Commission announcement of 12 May 2010 (Reinforcing economic, 2010, p. 4). Analysing the European Commission data it can be seen that between 1990 and 2008 the number of fiscal rules increased (up to 67), whereat most of the countries introduced more than one fiscal rule. Only three countries did not establish any domestic rules. These countries are: Cyprus, Greece and Malta. Concurrently, Bulgaria, France, Lithuania, Portugal and Hungary introduced new rules (Public finance, 2009, p.87).

Undoubtedly, the oldest and most commonly used fiscal rules are the balanced budget rule and the so-called golden fiscal rule. Both of them are ranked in the group of rules referring to the budget balance. Balancing the state budget, i.e. preventing excessive expenditure in relation to income possibilities of the budget is a classical principle of public finance. Nowadays, it takes up the form of a limited imbalance of public finance (Lubińska, 2013) and the assumptions in the scope of a mid-term budget objective within the framework of the Stability and Growth Pact that refer to the structural balance (Skiba, 2010, p.125). The concept based on structural balance (Owsiak, 2013, p.14, Moździerz, 2009) enables the pursuance of an anti-cyclical budget policy. The said concept was introduced in 2005 at the EU level within the framework of the reform of the Stability and Growth Pact and enforced by another reform of the said Pact in 2009. In the context of the above-mentioned changes, several EU countries also applied domestic rules based on this concept (Franek, 2010, p. 71)[2].

Then, according to the golden fiscal rule it is possible to fund only current expenditures, not the investment-related ones from current income. It is possible to incur public debt in order to fund the investment-related expenditures. As depicted in the literature on the subject in question, this rule induces conformity of the budget to the changes of the economic cycle much better when it enables automatic reduction of investment expenditures in the period of recession. The golden rule gained popularity, inter alia, in Germany, France, Great Britain and Italy (Franek, 2010, p. 70-71).

2. The Polish fiscal rules

The currently applicable principles of the functioning of the fiscal rules are set forth, in particular, in the Act of 27 August 2009 *on Public Finance* and in the Constitution of the Republic of Poland of 2 April 1997.

[2] A good example may be Sweden and Germany. In Sweden, apart from the expenditure rule, the obligation of obtaining the structural surplus of the public sector at the level of 1% of the GDP is in force. In Germany, a constitutional provision has been introduced requiring the federal government to maintain the structural balance of the budget deficit at a maximum level of 0.35% of the GDP. This rule is to be in force until 2016.

From among the currently existing rules, the following are the most important ones:

- The constitutional limit of indebtedness complemented by the prudence thresholds in the Act on Public Finance;
- The rule restricting the rate of increase of expenditures other than those legally determined (as well as new legally determined expenditures) for the forecasted inflation rate increased by one percentage point (so-called disciplined expenditure rule);
- Stabilising expenditure rule, included in the provisions of the Act on Public Finance;
- In relation to local government units, at least the rule of balanced current result, as well as the individual debt indicators in force from 2014.

Prior to the entering into force of the stabilising expenditure rule, the necessity of changes and complementation of the system with an additional mechanism was repeatedly indicated. The solutions effective since the end of 2013 had limited subjective scope – those included only a part of the public finance sector (for instance, the regulations concerning local government units, disciplined expenditure rule – directly determining only a part of the state budget spending) or concern a single subject (e.g. the requirement of a balanced financial plan in the area of revenue and costs, as well as minimal level of the costs of the National Health Fund). The public debt rule, although it encompasses the whole public finance sector, gives some directions in the area of the pursuance of fiscal policy only in the case of exceeding the prudence threshold by state public debt in relation to the GDP. It does not indicate any activities that would make it possible to avoid excessive public debt. It compels the reduction of the imbalance of public finance in the case of a significant deterioration of its condition, which usually occurs in the periods of bad economic situation.

In connection with the above-mentioned drawbacks of the currently applied solutions, the new expenditure rule, the so-called stabilising expenditure rule which starts functioning as of 2014, may constitute an instrument that assures a long-term stability of state finance in Poland. This rule is of an anti-cyclical character. As depicted in the literature on the subject in question, the above-mentioned expenditure rule will serve the purpose of finishing the process of the consolidation and subsequently stabilising the public finance understood as obtaining the *General Government* deficit in an average period at the level of mid-term budget objective which is the structural deficit lower than 1% of the GDP. The functioning of the stabilising rule should increase the public finance discipline. The effects of using this rule will be apparent in a few years time.

Features characterising the Polish and the EU fiscal rules – comparative analysis within the range of the public debt rule

One of the conditions of assuring the stability of public finance may be the application of fiscal rules which will refer to the process of managing the public finance, both at the domestic and the supranational level. One may think that fiscal rules may constitute an essential element of pursuing disciplined fiscal policy, but their efficiency depends on numerous factors. They are connected not only with the selection of an appropriate fiscal aggregate, but, inter alia, with their legal authorisation and with the principles of observing or enforcing sanctions for any violation of such rules.

The research conducted by the International Monetary Fund reveal that among 81 countries encompassed by the analyses, fiscal rules were legally authorised only in 30 of them. In 5 countries the rules are authorised constitutionally. It is worth emphasising that attaching normative nature to fiscal rules does not always result in the desired outcomes.

Fiscal rules included in the Maastricht Treaty along with the EU regulations of a reorganizational character, included in the Stability and Growth Pact, turned out to be ineffective. The literature on the subject in question indicates that the inefficiency may be explained by the financial crisis, however, analysing the fiscal situation of EU countries one can pay attention to the fact that difficulties with keeping the public finance discipline occurred in many EU countries prior to the crisis. Concurrently, during the financial crisis, over twenty countries were encompassed by the procedure of excessive deficit (Ciak, 2011b, p. 75-76). It is also indicated that the aggravation of the budget balances of European countries was caused by two factors, namely, extraordinary anti-crisis support programmes – fiscal impulses (Skiba, 2010, p. 36) adopted by the member states, which caused the increase of budget deficits. Secondly, in the conditions of a weakened growth and recession, the tax revenues of particular countries dropped and the expenses connected with the growth of unemployment increased. In the second instance, the so-called automatic economic stabilisers worked, which means that the worsening of the budget balances was of an independent character from the decision of the Minister of Finance.

In the case of Poland, one can consider a strong fiscal rule the one concerning public debt which is set forth in the Constitution of the Republic of Poland of 1997 (the admissible ceiling of the public debt in Poland amounts to

3/5 of the yearly GDP accounted for the previous year) and the prudence procedures included in Article 86 and Article 87 of the Act on Public Finance of 2009.

Analysing the Polish fiscal rules, as well as the ones included in the Maastricht Treaty and in the Stability and Growth Pact in relation to the most important features indicated by Kopits and Symanski, one can depict several similarities occurring among them, in particular in the matter of public debt. The Table below includes a comparison of fiscal rules within the scope of public debt according to certain selected features.

Table 1: Comparison of fiscal rules within the scope of public debt according to certain selected features

Features	The Polish rules of public debt	The rules of public debt according to the Stability and Growth Pact
Adequacy	++	++
Precise definition	+++	++
Efficiency	++	-
Enforceability	+++	-
Flexibility	+	++
Incompliancy	++	++
Transparency	+++	+++
Cohesion	+++	-

Source: Author's analysis.

Analysing the above Table, the following can be ascertained:

First, the adequacy of applying the rules in both cases is similar. The rules are characterised by a preventive approach, reducing the debt without indicating the possibility of managing it effectively.

Second, the Polish fiscal rules referring to public debt are better defined. In both cases the rules operate as binding directions, however, in the case of the Pact there is an exception to the adopted principles which allows abandonment of the rules included therein, if the GDP of a particular country declines by at least 75 basis points in comparison to a parallel period of previous year. In relation to the Polish reorganizational and prudence-related procedures, there is no clause included therein that would enable avoidance of the rules, imposing on the State an obligation to observe them.

Third, the efficiency and cohesion of the fiscal rules in the Euro zone are described as being weak due to the fact that both the coordination and the formalising of the public debt policy are diametrically different in many European economies. The Polish regulations in this area are described as being good, primarily due to their functioning, and thereby they constitute a positive incentive in formulating budget policy.

Fourth, the enforceability of the rules may be assessed as good in the case of the criteria that are effective in Poland. In the case of the Euro zone it is low. One can invoke the Stability and Growth Pact within which there is a possibility to impose penalties on the countries that do not pursue the policy of reducing the budget deficit in the case of the excessive deficit procedure imposed on them. It is worth mentioning that it has been repeatedly indicated in the literature on the subject in question that imposing fines within the Stability and Growth Pact is a dead letter (Ciak, 2014).

Fifth, in the case of the flexibility feature of the rules it can be stated that their substantial flexibility enables the omission of the sanctions and limitations arising out of excessive public debt, which reflects the current level of public debt in the EU countries or in the Euro zone countries (Ciak, 2014).

Sixth, as far as the complicacy of the rules is concerned, both the rules concerning the public debt in Poland and those arising out of the provisions of the Stability and Growth Pact may be recognised as being constructed in a legible and understandable manner.

Seventh, as far as the last feature is concerned, in both cases there is a significant transparency of the rules. However, the situation is slightly different in the case of the observance of the rules. In Poland there is a formal command which implies the openness of the activities of the government and the introduction of appropriate plans aiming at the reduction of the level of the debt in relation to the GDP. The Euro zone, in turn, despite the existence of appropriate rules, does not always observe them. As depicted in the literature on the subject in question, one of the reasons is the lack of a direct institution between the governments of particular countries and the European Commission which could enforce the implementation of the assigned instructions.

3. Conclusions

Summing up, it should be ascertained that conferring a normative character on fiscal rules does not always bring the desired results. Reduction of the effectiveness of fiscal rules may ensue, inter alia, from the type of the applied rule, the limited subjective and objective scope encompassed by the particular rule, excessively broad and sizable catalogue of exceptions, excessively flexible principles of the application of such exceptions, as well as the lack of actual sanctions for the non-observance of the rules.

It is also worth emphasising that fiscal rules become tools which inscribe in the characteristics of the transparent fiscal policy. Nowadays, there are no doubts as to the necessity of efficient management of public funds due to immense encumbrance of national budgets by a high public debt, and thereby high and still growing costs of the handling of such debt.

There is also common consent, especially after the latest financial crisis, as to the necessity of improving the condition of public finance. The fiscal rules functioning in particular countries, as well as the rules of supranational character, should enable the implementation of the economic programme of governments with a pre-designed framework that would assure the maintenance of macroeconomic stability.

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GREEK SMALL & MEDIUM SIZED DAIRY &CHEESE ENTERPRISES: A STRATEGIC ASSESSMENT UNDER THE ECONOMIC CRISIS

ACHILLEAS KONTOGEORGOS[1], FOTIOS CHATZITHEODORIDIS[2], SPYRIDON ARVANITAKIS[2], GEORGE THEODOSSIOU[3]

ABSTRACT. Small and medium sized agro-enterprises can play a critical role in creating rural income and employment opportunities, through the demand they create for raw material supplies, such as milk. In addition, small and medium sized enterprises are responsible for generating a significant share of products and services in the agricultural sector. Moreover they can create income and employment in rural areas where the opportunities for employment are in shortage. However, there are major constraints that must be addressed in order to realize the full developmental potential of SMEs. These constraints are getting more severe, as the economic crisis in Greece is still undergoing.

This paper conducts a strategic assessment of the Greek small and medium dairy and cheese enterprises in the area of Thessaly (Central Greece) in order to illustrate how they have responded to the economic crisis and also to investigate their strategic orientation for the next period. For this reason, a qualitative research has been carried out during the first half of 2013 using in depth interviews with SME executives in order to illustrate their financial situation and their reaction to the crisis.

The key issues facing SMEs are, in general, how to survive, how to develop, how to be competitive, and what are the market challenges. An improved understanding of these challenges, strategies and priorities for SME– as perceived by their managers – can help SME not only cope with the economic crisis but also to help them to expand and establish their role in the local economy. SMEs that are appropriately capitalized and managed can produce high quality branded and labeled products, which can create added value for the agricultural products, increase revenues and even more to create export

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revenues. Thus, the results' analysis could provide helpful directions not only for the Greek SME in the dairy and cheese sector but also for food businesses operating under a severe economic situation such as the Greek economic crisis.

Key words: Small and Medium Size enterprises, Dairy Sector, Strategic - Management, Economic crisis

JEL Classification: L21, L26, M00

1. Introduction and Literature Review

Greece is now in its fifth year of deep recession. In a country where 85% of private employment is concentrated in the SME sector and more than 50% in micro enterprises (0-9 employees), the prolonged recession, aggravated by austerity measures and the delay of much-needed structural reforms, has affected SMEs profoundly and disproportionately more than large enterprises, especially since the last five years consistently have been recorded a negative growth rate of Greek GDP at 2005 prices.(ISE, 2014).Many research works (i.e. Latham 2009) reveal that small businesses are the first victims of a prolonged economic crisis. Also, SMEs are those who are disproportionately affected by the crisis compared with the larger enterprises, due to limited financial resources and the main dependence on bank lending, forcing them to pay higher interest rates than large firms, which burdens even more their effectiveness.

According to Kitching et al. (2009) despite differences in the causes, depth and duration of particular recessions, two broad sets of views regarding how small businesses are affected by recession, and other external shocks, can be discerned – these may be termed the "vulnerability" and "resilience" views. On the vulnerability view, small businesses are treated as highly susceptible to external shocks, such as recessions, with firm performance declining in line with GDP. Small firms possess limited resources, customers and product lines across which to spread their risk – all of which restrict a firm's capacity to withstand competitive pressures in adverse macroeconomic conditions. They are also much more likely to cease trading than larger enterprises. A study of established manufacturing small firms pointed to time lag effects with an economic downturn affecting first sales, then profitability and finally survivability as short-term responses proved insufficient to keep the business alive in the medium-term. This study also raised questions about the long-term consequences of adaptation strategies cutting investment and substituting labour (sometimes own labour and that of family members) for capital. Under this view, falling GDP at the macro level causes performance decline at the micro level and, in severe cases, business closure.

On the resilience view, according to the same authors small businesses are perceived as able to survive, and possibly thrive, during periods of economic downturn, owing to their flexibility in adjusting resource inputs, processes, prices and products. A deteriorating macroeconomic environment does not necessarily lead to small business performance decline and exit or contrary to the pronouncements of some commentators, constrain every small business in the same way. Recession may stimulate activity in particular sectors, or in particular kinds of business. Where customers switch to cheaper products to restrict expenditure, for example, this may boost suppliers of such goods and weaken the position of higher-priced providers. Some businesses might be willing to undertake risky investment, innovation or diversification because they believe current practices will not sustain performance levels. Business performance does not map on to business size in a direct way. Thus, the analysis should focus on the particular circumstances shaping individual firms' activities, business owners' responses, and the variable levels of performance achieved. Size is only one influence on small firms' adaptations and performance under recession conditions. What is missing is an analysis as to how and why small businesses adapt to recession conditions in the ways they do.

Firstly, it would be useful to provide a theoretical framework of how a SME is defined and the factors that affect their available strategies. In general, EU uses the number of employees and the annual turnover in order to define a SME (Medium-sized enterprises; < 250 employees and < 50 million € turnover, Small; < 50 employees and < 10 million € turnover and micro enterprises; < 10 employees and < 2 million € turnover). However a SME can be defined as follows: (a) enterprises with a relatively small share of their market; (b) managed by owners or part-owners in a personalized way, and not through the medium of a formalized management structure; and (c) acting as separate entities, in the sense of not forming part of large enterprise or group. Yet it is acknowledged that using the number of employees as a measure of firm size may create a number of anomalies (Storey, 1994). Thus, both quantitative and qualitative measures are used in defining the SMEs.

Storey (1994) also discusses the general differences between large and small firms in terms of centrality of owner-manager, the structure, resources and number, and variety of products and range of markets served. In smaller firms, owner-managers are less able to influence competitive environment than larger firms. Besides, smaller firms' organization structures are likely to be organic and loosely structured rather than mechanistic and highly formalized (Jennings and Beaver 1997), In smaller firms, all the roles will either be performed by one manager or by a very narrow range of managers who may have been appointed because they are family members or friends rather than on the basis of ability or education.

Some of the potential economic and social benefits of the SMEs to their capacity can be summarized as follows: (a) create jobs at low cost of capital; (b) contribute positively to the Gross Domestic Product (GDP); (c) provide an opportunity to expand the entrepreneurial base; (d) provide the required flexibility to adapt to market changes; (e) provide support to large scale enterprises; (f) enter into market niches which are not profitable for larger enterprises; and (g) contribute to development policies that are more oriented towards decentralization and rural development. Nevertheless, all the above may never be fully realized without an adequate regulatory system and an encouraging environment (Sultan, 2007).

In order to assure the aforementioned economic and social benefits of the SMEs it is necessary not only to study the problems confronting them but also to understand how to overcome these barriers and how they affect SMEs' performance. Many factors are hypothesized to impact business performance. Competitiveness is the mean by which entrepreneurs can improve their firm's performance, and which can be measured according to a number of dimensions including market share, profit, growth, and duration. However there is no consistent pattern to the characteristics, which contribute to business competitiveness, success and growth. What is more, not all small firms are growth-oriented, and the majority of owner-manager focuses on day-to-day survival. Eventually, the majority of small enterprises are really small, and even if they survive an economic crisis they are always likely to remain small-scale operated.

Nevertheless, performance seems to be strongly dependent on enterprises' strategy choices. Jones& Tilley (2003) developed a conceptual framework for the competitive advantage in small firms. To be effective, they claim that the starting point for the owner-manager of a SME is to establish a broad strategic framework for the firm. They also claim that organizational flexibility is the key source of competitive advantage for most SMEs. Roper (1999) sheds light on factors determining an enterprise's business strategy and the impact such a choice holds on the firm's performance consequently. Roper sets three categories to measure strategic choices: Products and Markets, Systems and Management and Control. The one strategy choice that shows a positive correlation with both growth and profitability was the developing new exports markets, which comes as a component of products and market strategic choice (i.e. Gavruchenko et al., 2003). Furthermore, strategic choices are strongly tied to the firm's environment.

There are different definitions for a firm's strategy. All these definitions are sharing in defining the strategy as an action to be taken in the future. Porter (1996) defines strategy as: "The creation of a unique and variable position, involving a different set of activities." He states that the essence of strategy is choosing to perform activities differently from rivals do and those firms must consider strategic positioning and strategic fit when crafting strategies. Barney (2002) defines the strategy as "A firm's theory about how to compete successfully." Porter (1985) determined three generic strategies firms can possess: the cost leadership, differentiation and focus. Sources of cost advantage are likely to be rare including learning-curve economies, differential low-cost access to factors of production, and technology. Firms can differentiate their products in different ways: product features, linkages between functions, timing, location, product mix, links with other firms, product customization, product complexity, consumer marketing, distribution channels, service and support, and reputation. Differentiation is more attractive to small companies, particularly when linked with focus (Loizou et al., 2013). Firms focus on a particular market niche and company resources are devoted to maintain market leadership in that niche. In 2001, Porter indicated that a firm can obtain profits more than the average market player by operating at a lower cost, or by charging a premium price, or by doing both (Porter 2001).

Besides the generic strategies described by Porter quite important strategies for SMEs are the innovation strategy, the networks (clusters) and the flexibility strategy. In brief, innovation is a broad term that encompasses any new development in firms. It can involve creating or reengineering products or services to meet new market demand, introducing new processes to improve productivity, developing or applying new marketing techniques to expand sales opportunities, and incorporate new forms of management systems and techniques to improve operational efficiency. However there are many constraints on the ability of SMEs to innovate. These constraints are namely: finance, management and marketing, labour, and information. In general, small firms have little commitment to research and development and are highly dependent on external knowledge sources (Vossen 1998). Nevertheless, innovating SMEs can perform higher in terms of sales and exports. Moreover quality, specialization, speed of delivery and after sales services can be regarded as much more important in terms of improved competitiveness by innovators in comparison to non-innovators who tended to concentrate on low-cost leadership strategies. Also, high innovators place more emphasis on a wide range of network linkages to access services such as market research, advertising, legal, banking, insurance and technical support (Bagshi-Sen, (2001).

The SMEs belong to clusters and networks are often more competitive and innovative than those operating in isolation (OECD, 2000). Some clusters are structured and formal while others are informal. Networking allows the SMEs to combine the advantages of smaller scale and greater flexibility with economies of scale and scope in wider markets - regionally, nationally and globally. Competitiveness of small firms is strongly influenced by the level of the inter-firms collaboration. These links can take different shapes in which different firms join together to co-produce, co-market, or co-purchase, cooperate in new product development, or share of information (Chatzitheodoridis et al., 2013). While networking is viewed as an important requirement in enterprises of all sizes, these learning opportunities are argued to be of particular importance to small firms in order to offset the vulnerability of size acting as the key determinant of organizational success.

Last but not least, SMEs have the ability to change their strategic plans quickly and at low cost. Small businesses offer some of the best options for making meaningful productivity gained in the global marketplace based on their flexibility and speed in adapting to market dynamism. According to Jones and Tilley (2003), organizational flexibility is the key source of competitive advantage for most SMEs. Flexibility and responsiveness to customer needs can act as a mean to compete large-scale mass producers.

This paper investigates how a sample of central Greece-based small dairy enterprises has adapted to recession conditions and with what consequences for their strategy. The analysis can broaden the understanding of how recession conditions shape small business activities and strategies. More specifically, the study attempts to

- identify the effects of the recession and economic crisis on small dairy enterprises,
- investigate small business responses, and
- analyse business future strategies.

The remaining paper is structured as follows. The second section describes the research framework used in this study followed by a discussion on the results and the conclusions.

2. Material and Method

The current study aims to illustrate the current situation of the SME in the Greek dairy sector in order to identify strategies that can be used by SMEs and other businesses to exit the crisis. The prolonged recession, and the consequent rise in unemployment rates, has had a very negative cumulative impact on companies, especially small and micro enterprises, which constitute the vast majority of the Greek SME sector. In terms of total number and contribution to employment and total value added, the SME sector in Greece is more dependent on micro enterprises than in other European countries. Greece belongs to a group of countries (together with Spain, Portugal and Italy) where

SMEs account for a higher proportion of total employment than in the rest of Europe; this is concentrated particularly in micro firms, which provide over half of all jobs, as compared with approximately 30% in the EU as a whole.

Table 1: Number of Greek SMEs, employees and value added compared to EU average

	Number of enterprises			Number of employees			Value added		
	Greece		EU27	Greece		EU27	Greece		EU27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	513.780	96,7%	92,3%	916.074	54,5%	28,9%	17	34,6%	21,1%
Small	14.978	2,8%	6,5%	282.808	16,8%	20,2%	9	18,1%	18,1%
Medium-sized	2.301	0,4%	1,1%	227.958	13,6%	17,3%	8	16,3%	18,2%
SMEs	**531.059**	**99,9%**	**99,8%**	**1.426.840**	**84,8%**	**66,4%**	**34**	**69,0%**	**57,4%**
Large	378	0,1%	0,2%	255.413	15,2%	33,6%	15	31,0%	42,6%
Total	**531.437**	**100,0%**	**100,0%**	**1.682.253**	**100,0%**	**100,0%**	**49**	**100,0%**	**100,0%**

***Source**: EU, 2013 available at: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/greece_en.pdf*

The analysis is based on the perceptions of SMEs' executives' perceptions and reactions to the economic crisis. Such a preliminary research could be useful in reaching conclusions on the future of this sector. Formulating management alternative scenarios is a completely subjective issue that requires the analysis of qualitative variables and subsequent predictions employing an analytical method.

Analytical qualitative methods can be used for two main purposes: for predictive purposes, i.e. extracting information for future scenarios and for seeking views on a particular topic on which no prior information is available. In this paper, in-depth interviews were conducted with SMEs' executives. Interviewing is a method of qualitative research in which the researcher asks open-ended questions orally and records the respondent's answers. Interviewing is typically conducted face-to-face, but this one, has been done via telephone. An invitation was send to SMEs' executives, firstly through email and afterwards via telephone in order to invite them to participate in this survey. The topics of the interview were announced to participants two to three weeks before the interview.

The interview was divided in three parts. In the first part there are the demographic data of the respondent and their enterprise identity. In the second part an attempt was made to clarify the problems faced by SME and the desirable solutions (either by themselves or by the state) in order to confront the economic crisis. In this section closed questions using a 3-point Likert were used. The third part of the interview contained a question about the future strategies and tactics that the owner –manager of the SME is willing to undertake in order to overcome the economic crisis. In this part, participants were asked to choose only one proposed strategy as their first priority.

To conclude there are two main topics which have to be investigated; the perceptions of the owners-managers about the economic crisis and how it has affected their enterprise and secondly, which management strategy and tactics could help them to overcome the crisis. To sum up, the analysis conducted in this paper is an appropriate qualitative technique to study the current status and to make future proposals for the dairy SMEs' within the framework of the economic crisis in Greece.

3. Results and Discussion

Thirty four small and medium size dairy companies took part in this study. Their characteristics are presented in table 1. More than half of the participants run a micro enterprise (turnover less than 2 million € and with less than 9 employees).

Table 2: The characteristics of the SMEs participating in the survey

Characteristics	Frequency (count)	Percentage (or SD)
Size		
Turnover		
< 2 million Euro	20	58.8 %
2-10 million Euro	11	32.4 %
> 10 million Euro	3	8.8 %
Number of Employees		
0-9	17	50.0 %
10-49	14	41.2 %
>50	3	8.8 %
Years in Operations	26.44 years	19.55 (sd)
Location and Activity		
Prefecture		
Larissa	14	41.2 %
Trikala	9	26.5 %
Karditsa	6	17.6 %
Magnisia	5	14.7 %
Activity		
Cheese	21	61.8 %
Milk and other dairy products	13	38.2 %
Total	35 SME Dairy Enterprises	

Table 3 presents the major problems faced by the Greek Dairy SMEs participating in this survey. Liquidity problems are the major problems according to the participating SMEs. For example, “Tiresias” the Greek system to report dishonoured checks reports for 2013 a total of 645.7 million € in dishonoured checks while in 2011 dishonoured checks reached 2.3 billion € (Imiresia, 2014). In addition, it is quite worrying the differential from the EU average in terms of banks’ willingness to provide loans and the proportion of SME loan applications that are rejected. The total time it takes to be paid is still double the EU average (104 days as against 52 days), lost payments are almost double the EU average (5.9 % as against 3%) and the ‘strength of legal rights’ is not improving (EU, 2013). It is worth mentioning that SMEs consider as an important problem the tax services and the Social Security Services along with the amount of their payments to these services.

Table 3: The main difficulties faced by dairy and cheese companies participating in the survey during the crisis

Serious Problems	**Frequency (count)**	**Percentage**
Economic Problems		
Liquidity	22	64.7%
Dishonoured checks in the market	32	94.1%
Reduction in demand	19	55.8%
Public Administration Problems		
Social Security Organisation payments and transactions (IKA)	14	41.1%
Municipality / Prefecture Services	6	17.6%
Tax Services	20	58.8%

In Greece SMEs like all companies are confronted by the economic turmoil and, in some cases, closures affecting financial institutions. Banks’ extreme reluctance to lend to Greek firms because of tight funding constraints due to the sovereign debt crisis exacerbates the vicious cycle of economic recession and severely affects Greek SMEs’ efforts to remain active. Hardly any specialized financial support instrument for SMEs has been immune to the current financial situation and, in general, SMEs’ access to loans, credits and funding sources is limited. (EU, 2013)

As a result of the liquidity problems faced by the majority of the participating SMEs was to try to reduce their labour cost (table 4). Three out of four enterprises tried to reduce their labour cost by reducing overtime hours (35.9%), working days (38.3%) and cutting down their production volume by shedding their production shifts. Thus, Greek small and micro enterprises are also moving towards more flexible employment forms vis-à-vis their employees, to mitigate the risk of having to close down. As a consequence 40% of the SMEs participating in the survey reduced the number of their employees. In addition, the economic crisis has resulted in a new form of 'restructuring', with an estimated 1,500 to 2,000 Greek SMEs in 2011 and 2012 (according to information from the National Confederation of Hellenic Commerce) shifting their activities to neighbouring countries (including Turkey, Cyprus and Romania) in a bid to reduce labour costs and find new markets (EU, 2013). Nevertheless, only one out of four claimed that their effort to reduce their labour cost had a direct impact on their profits. The rest of the participants claimed that their efforts had no effect on their profitability.

Table 4: Tactics to reduce labour cost their effect on firms' profits

Tactics to reduce labour cost	Frequency (count)	Percentage
Reducing overtime hours	12	35.9%
Reducing Working Days	13	38.3%
Reducing production volume and hours (Shift)	10	29.4%
Redundancies	14	41.2%
Effect on Profitability		
Not trying to reduce labour cost	9	26.5%
Negative change to profits	3	8.8%
No change to profits	14	41.2%
Positive change to Profits	8	23.5%

In the next section respondents were asked to suggest a solution that would be of help to their enterprise to confront the crisis (table 5).The respondents' answers are almost equally divided in the three severe problems faced by SMEs. Thus, respondents desire a more responsive public administration for their enterprises, they consider that taxes and social security payments are enormous for their enterprises' size and finally they need to access bank loans to support their activities.

Table 5: Proposed Solutions by dairy and cheese companies participating in the survey in order to overcome the crisis

Solutions	Frequency (count)	Percentage
Less public bureaucracy (a responsive administration to SMEs)	10	29.4%
Less taxes and social security payments	12	35.9%
Improved liquidity (bank loans)	11	33.3%
Debt rearrangement	1	2.9%

In general, the Greek authorities are perceived by entrepreneurs as imposing more regulatory burdens than their EU peers. On the policy front, the new Law No 4072/2012 provided for a more flexible legal form of private limited company with just one member and a minimum capital requirement of only € 1 (compared to the minimum of €4,500 for other limited companies). The same law simplified licensing arrangements by introducing ICT based procedures linked to a single database, providing an integrated institutional framework for modernising and simplifying licensing procedures for technical professions, manufacturing enterprises and business parks. However, actual implementation has been slow, mainly due to the involvement of several ministries (Finance, Justice and Administrative Reform), as well as the regional authorities. This makes it difficult to ensure the necessary coordination, collaboration and synergies for decision-making (EU, 2013).

In the next section, respondents were asked to state which strategic direction they would follow in order to overcome this prolonged crisis' period (table 6). It is not surprising that the majority of the respondents (one out of three) answered that they are not taking any action waiting to see if there will be any changes in the whole situation. The next more favourable (one out of four) strategy for the participants was a defensive strategy, mainly expressed as effort to maintain their customers and their market shares. However, it must be noted that even for a position defensive strategy, the simplest defensive strategy, aiming to maintain an enterprise's current position in the market, investments are needed in order to protect a brand name and ensure customers' loyalty. Nevertheless such enterprises are the first target for new entrants in a market. The next strategies chosen by the respondents were the growth strategy and the cost leadership both at 17.5% of the sample. Growth is mainly expressed as expansion in new markets and cost leadership through a reduction in working cost.

Finally, even if clusters and networks for SMEs are often more competitive and innovative than those operating in isolation, only 9% of the sample claimed that they are willing to follow such a collaboration strategy. This is not surprising since Greeks are more attracted to be self-employed, much more likely than other EU citizens (double the EU average). EU Small business Act (EU 2013) report that the majority of the Greek owners stated a positive preference for this status (50% as compared with 37 % in the EU as a whole) and a higher-than-EU-average proportion have taken steps to start a business (32 % as against 23%). The above self-centered character of the Greek SMEs' owners could explain their unwillingness to undertake collaborative actions.

Table 6: Proposed business Strategies by dairy and cheese companies participating in the survey

Strategy	Frequency (count)	Percentage
Defensive(*keeping marketing share and customers*)	8	23.5%
Cost Leadership(*reduce production and labour cost*)	6	17,5%
Collaboration (*participate in networks /clusters*)	3	8.8%
Growth (*expand in new markets*)	6	17.5%
Nothing (*Waiting to see*)	11	33,3%
Total	**34**	100%

In the next session respondents were asked to state (with a 3-point Likert scale) their perceptions and their beliefs about the future of their SMEs and the economy of the whole country (table 7). It is worth mentioning that the majority believes that the future for their SME and the whole economy would be the same or worst in the near future. Another point that should be mentioned is that only one out of three believes that innovation and investments in innovation could help their SME and consequently the whole economy to exit the crisis.

Table 7: Perceptions about the firms' future and the exit of the economic crisis

Perceptions	Negative / Disagree*	Indifferent / The same	Positive / Agree*
	Frequency (Percentage)		
The next years for the economy will be… (*Economy future*)	9 (26.5 %)	13 (38.2 %)	12 (35.3 %)
The future of your company is… (*Firm's future*)	16 (47.1 %)	2 (5.9 %)	16 (47.1 %)
Your firms' turnover will be… (*firm's turnover*)	5 (14.7 %)	23 (67.6 %)	6 (17.6 %)
Innovation could help exit the crisis (*innovation*)	12 (35.3 %)	11 (32.4 %)	11 (32.4 %)
Investments on innovation are necessary to exit the crisis (*invest on innovation*)	15 (44.1 %)	11 (32.4 %)	8 (23.5 %)
Investments are necessary to exit the crisis *(Investments)*	19 (55.9 %)	6 (17.6 %)	9 (26.5 %)

**Note: 3-point Likert scale ranges from 1 (min) to 3 (max)*

Additionally, the weak innovation culture of Greek firms is partly responsible for delaying the much-needed investment in technology and knowledge transfer, and this is reflected in the lower-than-EU-average number of SMEs and employees in high-tech manufacturing. These trends have held back the development of the SME manufacturing sector, with investment in knowledge and technology-intensive activities insufficient to trigger much-needed growth in competitiveness (EU, 2013)

One way Anova has been employed to identify if there are differences between the aforementioned perceptions and believes and the strategy that the owners of the SMEs claim that they will choose for the next years. The results of the analysis are presented in table 8 and table 9.

Table 8: One way ANOVAanalysis Results

		Sum of Squares	df	Mean Square	F	Sig.
Investments	Between Groups	8.214	4	2.054	3.535	**.018**
	Within Groups	16.845	29	.581		
	Total	25.059	33			
Economy's future	Between Groups	2.724	4	.681	1.096	.377
	Within Groups	18.011	29	.621		
	Total	20.735	33			
Firm's future	Between Groups	1.667	4	.417	.398	.808
	Within Groups	30.333	29	1.046		
	Total	32.000	33			
Firm's turnover	Between Groups	.637	4	.159	.447	.774
	Within Groups	10.333	29	.356		
	Total	10.971	33			
Innovation	Between Groups	3.686	4	.922	1.386	.263
	Within Groups	19.284	29	.665		
	Total	22.971	33			
Invest on innovation	Between Groups	1.714	4	.429	.626	.648
	Within Groups	19.845	29	.684		
	Total	21.559	33			

Even if, many perceptions and believes were examined, only one characteristic appears to be statistically different among the different strategic orientations. In particular, the answers in the statement "Investments are necessary to exit the crisis" are the only differentiating factor for the owners of the SME in order to choose their strategy. According to table 8 SMEs that are willing to expand in new market have assign a higher rank in this question (mean 2.5, max 3). Thus, SMEs that have chosen to expand in new markets consider that investments, in general are necessary to exit the crisis. The other perceptions and believes do not provide any statistically significant information that differentiates the participating enterprises according to the strategy orientation they have chosen.

Table 9: Descriptive Statistics for the AVONA analysis

		N	Mean	Std. Deviation	Std. Error
Investments are necessary to exit the crisis *(Investments)*	Defensive strategies	8	1.13	.354	.125
	Cost Leadership	6	1.83	.983	.401
	Collaboration	3	1.00	.000	.000
	Nothing	11	1.52	.982	.296
	Growth (Invest)	6	2.50	.548	.224
	Total	34	1.71	.871	.149

4. Conclusions

Small and medium sized agro-enterprises can play a critical role in creating rural income and employment opportunities, through the demand they create for raw material supplies, such as milk. In addition, small and medium sized enterprises are responsible for generating a significant share of products and services in the agricultural sector. Moreover they can create income and employment in rural areas where the opportunities for employment are in shortage. In order to assure the aforementioned economic and social benefits of the SMEs it is necessary for SMEs to be competitive and improve their financial performance. Financial performance is direct linked to the strategy orientation of the SMEs. Thus, it is useful to illustrate how SMEs define and choose an appropriate strategy in order to achieve their goals. This issue is quite important since there are major constraints that must be addressed in order to realize the full developmental potential of SMEs. These constraints are getting more severe, as the economic crisis in Greece is still undergoing.

According to the results of this study the major problems faced by the Greek Dairy SMEs participating in this survey are the liquidity problems along with tax and social security payments in combination with the services provided to them by these public organizations. Most probably, the amount of the payments to these organizations makes the managers-owners of the SMEs to demand higher quality services. The second important finding of this study is that the efforts made by the participating SMEs to reduce production and labour cost have not a direct impact on the SME profitability. In our sample only one out of three SMEs' achieved to improve profitability through the labour cost reduction. The third finding of this survey concerns the way that SMEs choose their strategic orientation. It must be noted that the one out of three SMEs choose as their strategy to wait, without any reaction in the whole economic situation. In this study many perceptions and believes of the SMEs' managers - owners were examined to identify which one determines their strategic orientation. The results indicate that only those who have chosen to expand in new markets consider that investments are a necessary tactic to exit the economic crisis. The other perceptions and believes do not provide any statistically significant information.

Finally, it must be noted that our results are based on a dataset from SMEs in central Greece and are influenced by the weights attached to these SMEs and the goals of those SMEs. This may somewhat limit the relevance of the results to SMEs in other regions in Greece or Europe. Further research could include a wider range of factors that influence SMEs' managers' perceptions and their strategic orientation choices, for example economic, social and attitudinal factors.

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THE CURRENT PROFILE OF ROMANIAN HOTEL INDUSTRY: DOES IT ENHANCE THE ATTRACTIVENESS OF ROMANIA AS A TOURIST DESTINATION?

CORNELIA POP[1]

ABSTRACT. The lodging industry can be considered the core of tourism industry within a destination.

Tourism development within a destination is interlinked with an adequate supply of accommodation facilities tailored to tourist demands. The present paper investigates the current profile of Romanian hotel industry, the dominant sector of Romanian lodging industry, in order to relate it with the trends in tourist arrivals by internal destinations and by type of hotels. The international brand penetration rate and the concentration of hotels within hotel groups are also investigated, since these two factors can increase the visibility and the distinctive features of the Romanian hotel industry. The results of the present investigations indicate that Romanian hotel industry while supporting the destination does not have any special feature to enhance the attractiveness of Romania as a tourist destination due to important flaws in hotel developments.

Key words: hotel, profile, hotel groups, penetration rate, Romania

JEL Classification: L83, L89

1. Introduction

The lodging industry can be considered the core of tourism industry within a destination. Through the accommodation facilities the major part of income is realized as these facilities satisfy complex tourist needs. Tourism development within a destination is interlinked with an adequate supply of accommodation facilities tailored to tourist demands. Moreover, the lodging industry represents an important feature of the total tourist image of a country (Kainthola, 2009). The importance of lodging industry within a tourist

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destination can not be overlooked. The lodging sector can support and enhance the attractiveness of a tourist destination, if developed in an appropriate manner and include specific characteristics which can become distinctive features, or can contribute to the degradation of a given destination.

Romania remains a puzzle from a tourist destination point of view. While spoiled for choices when tourist attractions are concerned, Romania is not able to attract an important number of foreign tourists and to retain the domestic tourists, thus the domestic tourist number increased during the 2010s compared with mid of 2000s, it is still under the level of 1990. The image of Romania as a tourist destination remains confusing due to wrong choices regarding the branding or the promotional campaigns versus what the country can offer; this topic can be discussed at length and up to a point received some attention within the academic works. However, a less studied topic regards how supportive the domestic lodging industry is in order to enhance the attractiveness of Romania as a tourist destination. This investigation was triggered by the well known fact that during the 1970s and at the beginning of the 1980s, despite being a communist country, through affordable accommodation and an adequate level of quality Romania attracted, for that period, an important number of foreign tourists and for about a decade was considered a popular destination among Western European tourists. Thus, the 1990s had seen a sharp decrease in tourist inflows and the situation started to improve only at the end of the 2000s.

The present paper investigates the current profile of Romanian hotel industry, the dominant sector of Romanian lodging industry, in order to relate it with the trends in tourist arrivals by internal destinations and by type of hotels. The international brand penetration rate and the concentration of hotels within hotel groups are also investigated, since these two factors can increase the visibility and the distinctive features of the Romanian hotel industry. The results of the present investigations indicate that Romanian hotel industry while supporting the destination does not have any special feature to enhance the attractiveness of Romania as a tourist destination due to important flaws in hotel developments.

2. Review of literature

While the international academic literature on various aspects regarding hotels is vast, the studies dedicated to a specific country hotel industry profile are relatively scarce. Central and Eastern Europe hotel industry was investigated by Bartl (1997), Johnson and Vanetti (2005), and, more recently, by Niewiadomski (2013). Thus, at individual country level within Central and Eastern European country group only the following studies could be found: Johnson (1997) on Hungarian hotel industry, Cizmar (2007) and Grzinic (2008) on Croatian hotel industry, and Toneva (2009) and Dabeva (2010) on Bulgarian hotel industry.

The academic literature on Romanian lodging/ hotel industry is relatively thin and covers a variety of topics. The book of Pop et al. (2007) presented for the first time the evolution and structure of Romanian hotel industry. Also, for the first time the Romanian hotel groups were identified. Between 2008 and 2013 only several studies related to the Romanian hotel industry were published. Tuclea & Padureanu (2008) investigate the factors influencing Romanian hotel industry competitiveness and expressing only general conclusions. Scarlat et al. (2008) make a comparison between Romanian and Malaysian hospitality industry, taking into consideration that both countries have emerging economies. Another comparative study of Dogramadjieva & Matei (2010) considers the Bulgarian and Romanian hotel industry between 1990 and 2007. Cosma et al. (2010) investigate the strategies used by international hotel chains to enter Romania. Lupu & Nica (2010) discuss the problems of Romanian hotel classification system and formulate some ideas regarding the future path Romania can follow in this respect. Surugiu et al. (2012) make a brief analysis of the investments made in tangible assets in Romanian hotel industry between 1999 and 2007, concluding only at general level, however confirming the relative lack of such investments. Cojocea & Coros (2013) investigate the Romanian hotel industry at the level of 2012 and point out the missing data from the official database provided by the authority of tourism. Neither study of the 2008-2013 period focus on a profile analysis of Romanian hotel industry.

The current paper continues the work of Pop et al. (2007) by updating the information and presenting the evolution of Romanian hotel industry, the current level of development, and presents this sector profile as of 2013. The study adds to the scarce literature on country hotel industry profile updated information regarding the evolution of Romanian hotel industry. Moreover, the study can represent a base for further researches regarding various problems of the Romanian hotel sector.

3. Data and methodology

The present paper is a survey, with multi-dimension descriptions, investigating the profile of Romanian hotel industry in order to establish this sector potential contribution to the attractiveness of Romania as a tourist destination. For this purpose only secondary data were used from the following sources: World Economic Forum Travel and Tourism Competitiveness Reports, United Nations Database for Tourism, Eurostat, Romanian National Institute of Statistics (NIS) and the official database offered by the Romanian authority of tourism.

Several peculiarities regarding the Romanian data sources should be mentioned.

The statistics offered by the Romanian National Institute of Statistics do not include the lodgings with less than 5 rooms; they also do not include the individual rooms and apartments for rent to tourists. As follow, at the country level, the lodging sector is not entirely presented by these data. However, for the purpose of this paper the data are adequate because the focus is on hotels which must have, according to Romanian regulations, 5 rooms or more.

The database of Romanian authority of tourism became available on-line since 2008/ 2009 and it is continuously changing. New entries and re-classification are registered with some delay, while the hotels under re-evaluation process are deleted form the database despite the fact that they are operational and opened to the public. The hotels are registered at only one category of classification, while the existing regulations permit for Romanian hotels to have rooms of different classification. Within a hotel, floors or wings can be classified at 3 stars, other floors or wings can be classified at 4 stars, and in the end the hotel is registered in the general database within the classification category comprising the most rooms. These situations distort the results up to a point, thus the general picture is accurate enough when the data are crossed with those offered by NIS.

4. Romania and the neighboring countries

Romania's direct competitors as a tourist destination are the countries from Central and Eastern Europe. Being located in the same region, any tourist might take them into consideration as a group of destinations among one can choose. For the present, study only the countries from the European Union (EU) were considered given similar conditions for tourist visa and the freedom of travel between these destinations for the EU citizens.

World Economic Forum issues the Travel and Tourism Competitiveness Index. Using the general rank of these reports, Table 1 was generated. As it can be seen, Romania ranks the lowest among the selected group of countries, at more than 10 places below Poland (2007, 2008 and 2009) and Slovakia (2011). The main cause of this situation might be generated by the constantly wrong targets of promotional campaigns, but also by internal factors like the lack of co-operation between central and local authorities in order to generate a coherent development path for tourism, beside declarations[2]. While some progress have been made, they are spread among too many tourist destinations, initiatives and

[2] The 2003 situation is emblematic: at the beginning of that year, tourism was declared 'national priority'. During the second part of that year, the Ministry of Tourism was absorbed by the Ministry of Transports and Constructions. For a year, in 2008, a browse of Romanian regulations shows that Ministry of Tourism existed independently. At the beginning of 2009, Ministry of Turism was absorbed in the structure of a new ministry: The Ministry for SMEs, Commerce, Tourism and Other Professions. At the beginning of 2010 another change occurred, this time the Ministry of Regional Development and Tourism was created, including, as the name shows, the coordination of tourism activities.

programs and their visibility and results are difficult to be identified and brought to light. When the hotel rooms are taken into consideration, Romania's position improves slightly, by stepping up on the before last position among the selected countries, over passing Poland (Table 2). This position also indicates that Romania has an adequate supply of hotel rooms.

Table 1: Travel and Tourism Competitiveness of Romania: general rank

Country	**2007** (of 124 countries)	**2008** (of 130 countries)	**2009** (of 133 countries)	**2011*** (of 139 countries)	**2013*** (of 140 countries)
Bulgaria	54	43	50	48	50
Croatia	38	34	34	34	35
Czech R	35	30	26	31	31
Hungary	40	33	38	38	39
Poland	63	56	58	49	42
Romania	76	69	66	63	68
Slovakia	37	38	46	54	54
Slovenia	44	36	35	33	36

Source: World Economic Forum Travel & Tourism Competitiveness Reports
Note:* No report was issued for 2010 and 2012

Table 2: Travel and Tourism Competitiveness of Romania: rank by hotel rooms

Country	**2007** (of 124 countries)	**2008** (of 130 countries)	**2009** (of 133 countries)	**2011*** (of 139 countries)	**2013*** (of 140 countries)
Bulgaria	20	n/a	9	13	19
Croatia	9	11	11	12	13
Czech R	28	28	24	27	26
Hungary	40	41	43	44	44
Poland	68	70	75	77	73
Romania	51	51	53	51	56
Slovakia	n/a	40	38	40	40
Slovenia	35	36	32	28	27

Source: World Economic Forum Travel & Tourism Competitiveness Reports
Note:* No report was issued for 2010 and 2012

Table 3 presents the international tourist arrivals and tourism expenditure (travel only) within the destination country. As it can be observed, Romania received a modest number of international tourists, similar with Slovakia, while Slovakia is about half the size of Romania and fostering less tourist attractions. Since 2005, Romania lost ground compared with Bulgaria and Slovenia and lags well behind Hungary, Poland, Czech Republic, and Croatia.

The second part of Table 3 presents the tourism expenditures within the country. With the exception of 1995, when only Bulgaria registered a lower level of expenditure, Romania remains on the last position compared with its neighboring competitors. This indicates that the entertainment facilities are not appropriate, or absent in some cases, and do not encourage tourists to extend their stay and spend money within the destination. This situation also indirectly indicates that the souvenir products offered to tourists are inadequate and/ or too expensive.

The last part of Table 3 presents the travel and tourism direct contribution to gross domestic product (GDP). In accordance with the other data, Romania is the only country from the selected group that did not manage to increase the travel and tourism sector contribution to GDP over 2% over the past two decades.

Table 3: Romania as an International Tourist Destination

International Arrivals (thousands)										
Country	**1995**	**2000**	**2005**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Bulgaria	819	750	1,935	2,227	2,224	1,944	2,079	2,409	2,632	2,821
Croatia	848	4,761	6,625	7,029	7,082	6,962	6,652	7,237	10,139	10,775
Czech R	3,381	4,773	6,336	6,679	6,650	6,032	6,334	6,715	7,165	7,852
Hungary	2,878	3,214	3,446	3,451	3,516	3,228	3,385	3,671	4,164	n/a
Poland	3,703	3,118	4,310	4,387	4,046	3,862	4,135	4,409	4,979	n/a
Romania	762	867	1,430	1,551	1,466	1,276	1,347	1,517	1,653	1,715
Slovakia	895	1,045	1,498	1,665	1,739	1,283	1,313	1,448	1,511	1,653
Slovenia	709	1,037	1,514	1,704	1,870	1,731	1,767	1,921	2,125	2,226
Tourism expenditure (travel) in the country (million USD)										
Country	**1995**	**2000**	**2005**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Bulgaria	473	1,074	2,412	3,713	4,306	3,776	3,571	4,021	3,689	4,051
Croatia	1,349	2,758	7,370	9,233	11,280	9,000	8,051	9,388	8,637	9,518
Czech R	2,880	2,973	4,813	6,915	7,857	7,013	7,121	7,669	7,039	7,048
Hungary	2,928	3,733	4,120	4,739	6,033	5,712	5,339	5,629	4,841	5,103
Poland	6,614	5,677	6,274	10,599	11,768	9,011	9,526	10,683	10,938	11,407
Romania	590	335	1,052	1,610	1,991	1,229	1,136	1,421	1,463	n/a
Slovakia	623	433	1,210	2,026	2,589	2,341	2,228	2,431	2,295	n/a
Slovenia	1,084	961	1,795	2,283	2,696	2,520	2,540	2,755	2,674	2,789
Travel and Tourism direct contribution to GDP (%)										
Country	**1995**	**2000**	**2005**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Bulgaria	3.7	6.4	7.0	4.2	3.9	3.9	3.8	3.8	3.7	3.7
Croatia	7.8	7.5	11.2	11.1	11.9	10.3	11.3	11.2	11.9	12.1
Czech R	3.0	3.7	3.3	3.1	2.9	3.0	2.9	2.7	2.7	2.8
Hungary	4.5	5.9	3.9	3.8	4.0	4.4	4.2	4.2	4.1	4.1

Poland	3.4	3.0	2.2	2.3	2.0	2.0	1.9	1.9	2.0	2.1
Romania	1.7	1.3	2.0	1.5	1.5	1.4	1.4	1.4	1.5	1.6
Slovakia	1.6	1.4	1.8	2.2	2.5	2.6	2.3	2.2	2.2	2.3
Slovenia	3.0	3.3	3.3	3.1	3.2	3.3	3.3	3.5	3.6	3.6

Source: Eurostat for tourist arrivals (except Czech R in 1995); UN Data accessed mid August 2014, http://data.un.org for Tourism expenditure; WTTC for Travel and Tourism direct contribution to GDP, http://www.wttc.org/focus/research-for-action/economic-data-search-tool/

Table 3 confirms the information in Table 1, indicating a relative low competitiveness of Romania as tourist destination, despite the adequate accommodations, from number and capacity point of view. The last part of Table 3 also suggests that Romanian accommodation establishments, a main component of travel and tourism sector within a destination, seem to lack efficiency and profitability, therefore having a limited direct contribution to the country's GDP.

5. Romanian hotel industry evolution and structure

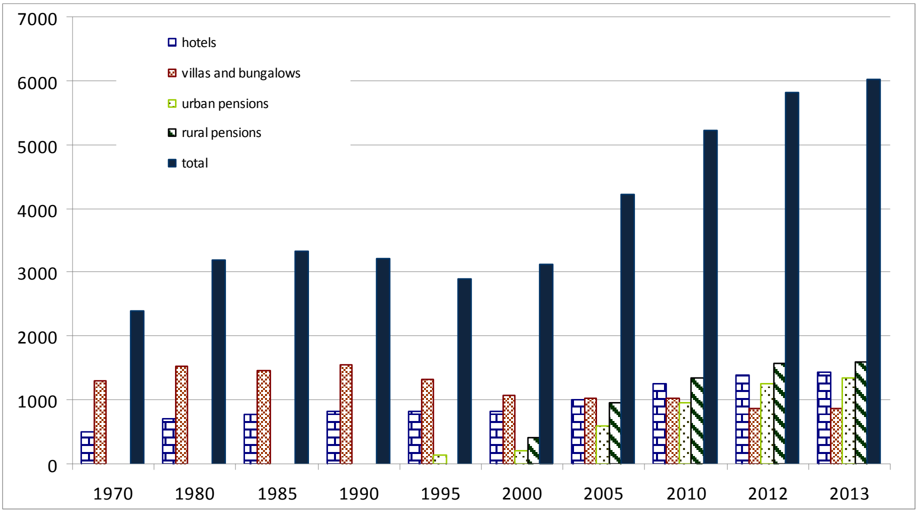
5.1. General information

The evolution of Romanian hotel industry is difficult to be tracked before 1970s. Between 1948, when the communist regime was imposed and the nationalization process engulfed the private lodgings, and 1968, when the nationalization process was considered closed, no official statistics were available regarding the accommodation structures available for tourists. In 1970 the first statistics regarding the lodgings in Romania became available.

The regulation that increased the variety of Romanian lodgings and changed the classification system from four categories to five stars was issued in 1993. Annex 1 presents the type of lodgings as defined by this regulation. However, important as number are few lodging types: the hotels, the villas and bungalows, and, since 1995, the tourist pensions, as it can be seen from Graph 1. Graph 2 presents the bed places in the selected accommodation types. While the number of urban and rural pensions is almost equal to hotel number since 2005, their lodging capacity is very limited, compared with the lodging capacity concentrated by hotels. The decline in villas and bungalow (previously named guesthouses) is due partly to the reclaim of the respective villas by their previous owners, while other dwellings of this type were closed due to high costs required by renovations and modernizations.

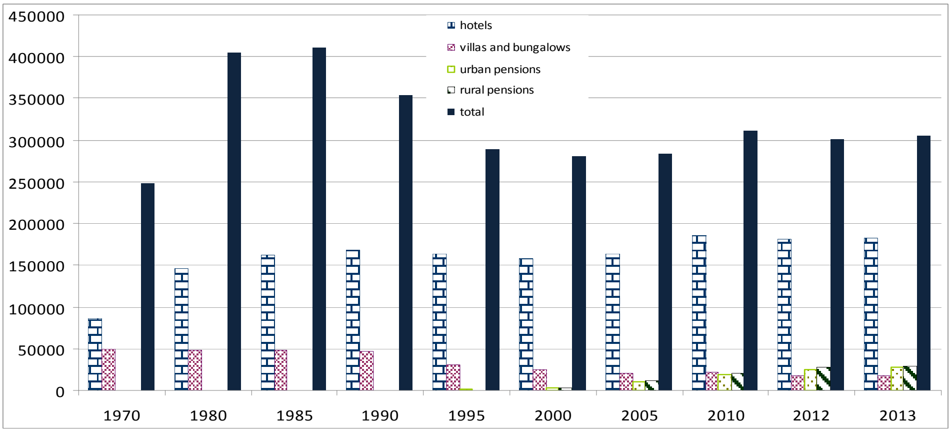
Graphs 1 and 2 clearly show that the Romanian lodging industry is dominated by hotels since 1970s. For the period 1990-2013 hotels represented, in average, 24.95% of total lodgings and 57.35% of total bed places. Graph 3 shows a more detailed evolution of hotel number and hotel bed places between

Graph 1: The number of selected accommodation types



Source: based on NIS (National Institute of Statistics) data

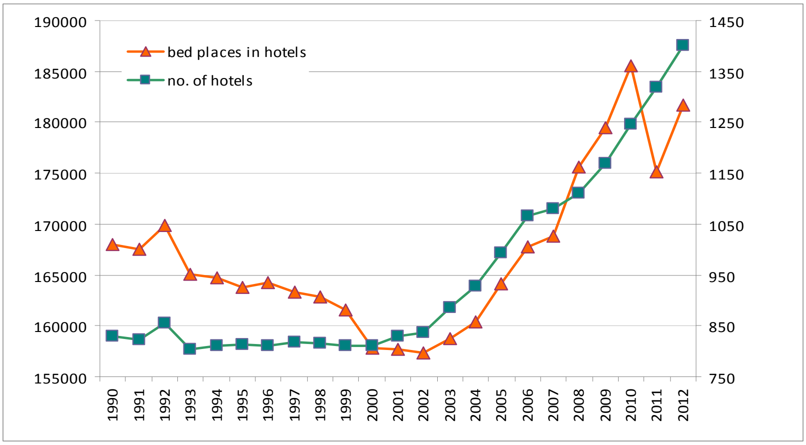
Graph 2: Bed places in selected accommodation types



Source: based on NIS data

1990 and 2013. It can be seen that the number of hotels remained relative stationary between 1990 and 2002. This situation was due to several factors: (i) the financing resources for important investment projects like hotels were scarce and inappropriate (no mortgage loans were available) and very expensive due to high annual inflation rates; (ii) the number of domestic tourists decreased while the borders were opened and the travel abroad became possible; (iii) the privatization process was stalled for the hotel industry, invoking the importance and the (supposedly high) value of the assets as real estate; (iv) the majority state owned hotels were managed through lease contracts, known as 'hiring management', which encouraged the neglecting of much needed maintenance and modernization works. The decrease of bed places while the number of hotels stagnated can be explained by the closing of hotel floors or wings, given the obsolete accommodation facilities. After 2002 the economic situation improved, the financing resources became more easily accessible and less expensive. A trend in building hotels arose, mainly dedicated to the 'newly discovered' business tourism. Despite the financial and economic crisis of 2007-2011, the number of Romanian hotels continued to grow; thus, the growth rate for bed places in hotels is lower and indicates a decrease for the period 2010-2013 (Table 4). In 2011 bed places dropped sharply with about 10,000 units, either due to closure of large hotels while the new entries were not able to compensate for the lost capacity, or due to partial closure of hotel floors and/ or wings due to the decrease in tourist number.

Graph 3: Hotels and hotel bed places between 1990 and 2013



Source: based on NIS data

Table 4 presents the hotel and bed places growth rate between 1990 and 2013 in comparison with the two previous decades. While in number the hotels growth after 1990 is almost similar to the previous decades, the growth rate of hotel bed places indicates a decrease. This suggests that the new properties entering the market after 2000 are of small capacity and also suggests that the older hotels decrease their lodging capacity in favor of larger and, supposedly, more comfortable rooms. This trend will be further discussed within the paragraph dedicated to hotels lodging capacity.

Table 4: The total growth rate of hotels by sub periods

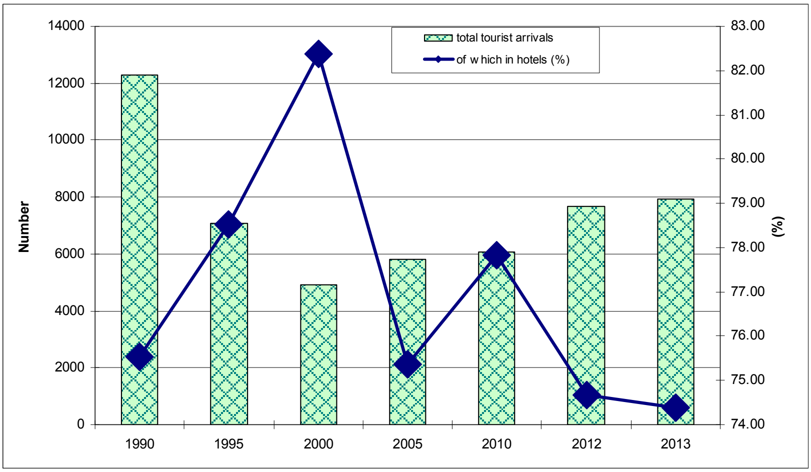
	1970-1980	1980-1990	1990-2000	2000-2005	2005-2010	2010-2013
Hotels	42.3%	17.4%	-2.2%	22.3%	25.5%	16.0%
Bed places	71.4%	14.6%	-6.0%	4.0%	13.1%	-1.2%

Source: based on NIS data

Since hotels are dominant within Romanian lodging sector, the preference of tourists for this type of accommodation is normal, as plotted by the Graphs 4 and 5. The preference of foreign tourists for hotels is higher than in the case of domestic tourists; between 88% and 93% of foreign tourist chose to stay in a hotel (Graph 5). When all the tourists are taken into consideration, the percentage is a lower, between 74% and 82.5% (Graph 4). This can be explained by the fact that since 2005, mainly during their holidays, domestic tourists started to try the services offered by other types of lodgings, mainly rural pensions. However, hotels remain the first choice if available, as the data suggests.

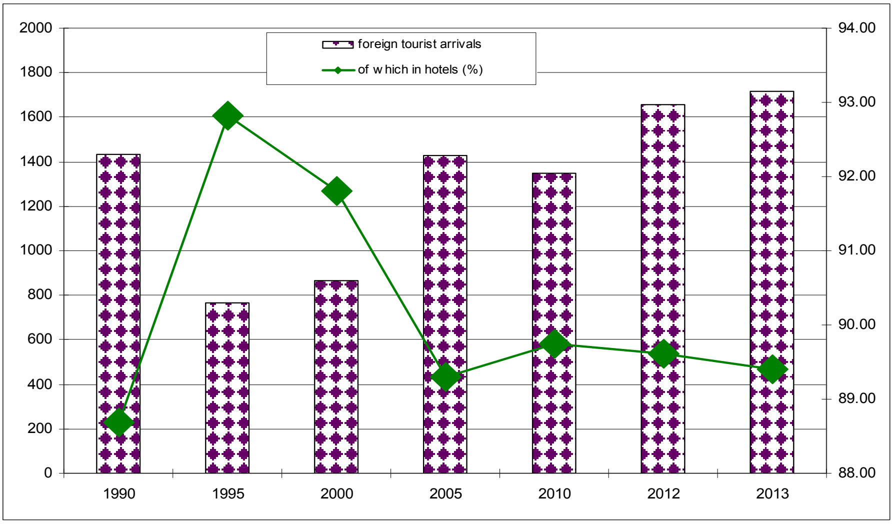
The preference for hotels is also reflected by the occupancy rate, as presented in Table 5. The occupancy rate in hotels is constantly above that at country level, the average difference is of 5.00%. During some years, the length of stay in hotels is also slightly higher than for all lodgings. Thus, the length of stay depends on the budget allocated for travel and usually increases when the economic conditions improve, like it was the case of year 2000. The effects of financial and economic crisis of 2007-2011 are visible both in occupancy rate and the length of stay; indicators dropped sharply compared with 2005.

Graph 4: Tourist arrivals in hotels



Source: based on NIS data

Graph 5: Foreign tourist arrivals in hotels



Source: based on NIS data

Table 5: Occupancy rate and length of stay

Year	Occupancy rate (%)		Length of stay (days)	
	Lodgings	Hotels	Lodgings	Hotels
1990	57.8	65.8	3.6	3.3
1995	45.0	45.9	3.4	3.2
2000	35.2	42.6	3.6	3.7
2005	33.4	41.1	3.2	3.4
2010	25.2	29.9	2.6	2.8
2012	25.9	32.1	2.5	2.6
2013	25.1	31.6	2.4	2.6
Average for 1990-2013	36.5	41.5	3.2	3.2

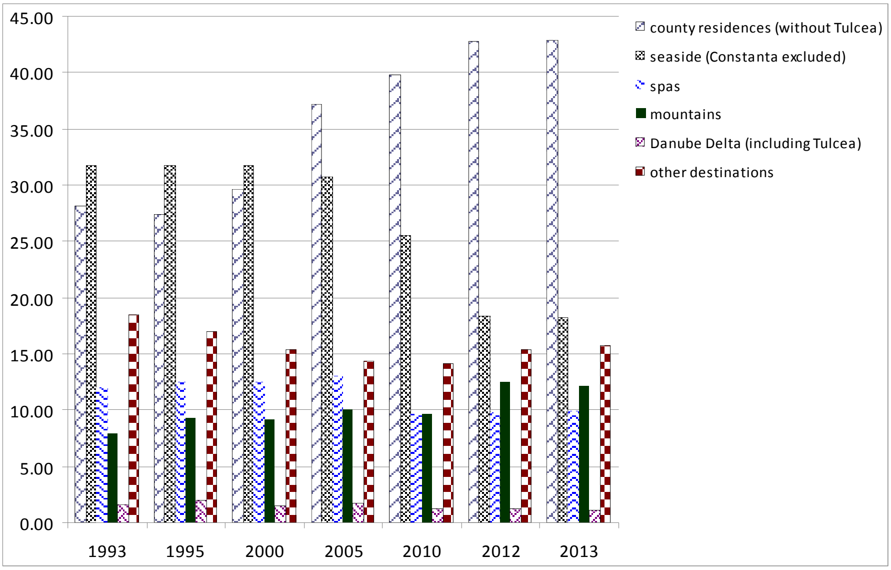
Source: based on NIS data

5.2. Hotels concentration by destinations

Given the dominance of hotels within Romanian lodging sector, further the attention will concentrate on hotels only.

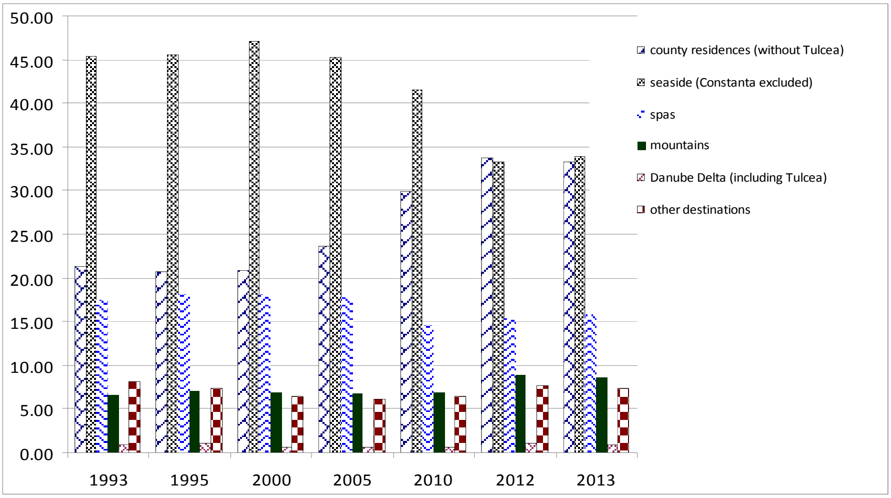
The concentration of hotels by main destinations (as defined by NIS) can be traced back to 1993, when the hotel regulations changed. Graphs 6 and 7 below present the concentration level by hotel number and by bed places in hotels.

Graph 6: Hotels by tourist destinations (%)



Source: based on NIS data

Graph 7: Bed places in hotels by destinations (%)



Source: based on NIS data

The 1993 situation can be considered similar to 1990 and reflects the concentration of hotels as it was at the end of the communist period. As both graphs show, the highest concentration of hotels was on Romanian littoral. This destination was built up during the communist regime as a mass tourism destination, to cater for a population that was not allowed to leave the country. County residences[3] followed closely due to their administrative position, needing hotels to accommodate those traveling for job related tasks, but also encouraging the city tourism for those who wanted to visit other parts of Romania. Spa and health resorts were also considered important by the communist regime because they catered for the working population in need of various treatments and cures, or just relaxation. The most important spa resorts were considered Calimanesti-Caciulata (Olt Valley), Buzias in Timis county, and Baile Felix in Bihor county. One might argue that many other spa resorts exists; thus the three mentioned previously concentrated an important number of hotels; moreover Baile Felix hosted the largest Romanian hotel of over 700 rooms (Pop et al., 2007).

The evolutions show a shift in this concentration starting with 2005, while this change was anticipated since 2000. The number of hotels in county residences overpasses the number of hotels on Romanian littoral and the decrease of spa resort and Danube Delta hotels became evident. By 2005 the dominance of hotels in county residences was established; thus, the county residence hotels needed seven years to overpass the lodging capacity of littoral hotels. This indicates, as highlighted above, that the new hotels in county residences were of small capacity. The number of hotels in spa resorts decreased, as well as the associated bed places due to the lack of renovation and modernization works necessary for the majority of hotels built during the 1970s and 1980s. While the number of hotels in mountain resorts grew slightly, their accommodation capacity remained roughly the same. The situation is similar for 'other destinations'. While Danube Delta is a beautiful destination, it is also a natural reserve and not easy to reach. The lodging capacity in this destination is low compared with the rest of the country, thus in concordance with the destination status of natural reservation where a relative low number of tourists is expected.

The information provided by NIS was crossed with the database offered by tourist authorities (however, this database was first available only in 2005). Table 6 presents the top 5 counties where hotels are concentrated and the data confirm the concentration pattern from Graphs 6 and 7. These five counties concentrate almost 50% of the Romanian hotels and close to 60% of hotel rooms and bed places, showing mainly the domestic preference for these destinations,

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[3] County residence represents the main city within a Romanian county, which hosts the main local administrative institutions and the representatives of central authorities. Usually is the most developed city within the respective county and also concentrates the largest medical care units, foster the headquarters for a largest number of business, and the main cultural institutions.

either generate by old habits and knowledge about the respective destination, or by domestic trends in choosing a holiday destination. Nevertheless, the knowledge regarding the lodging availability also triggers the preference for these destinations.

Table 6: Top 5 counties by hotels[4]

County	2005			2013			Observations
	hotels	rooms	bed places	hotels	rooms	bed places	
Constanta	293	36,520	72,726	349	33,799	67,707	Covers the Littoral
Bucharest	86	6,909	12,916	135	9,616	18,612	Country capital
Brasov	57	3,189	6,313	121	4,751	9,461	Partly covers the Prahova Valley (mountain resorts)
Prahova	51	2,724	5,370	74	3,046	6,033	Covers the Prahova Valley (mountain resorts)
Timis	48	1,966	3,890	66	2,579	5,076	
% of total hotels	***51.1***	***60.8***	***61.0***	***48.1***	***57.3***	***57.6***	

Source: based on authority of tourism database of 2005 and 2013 and Pop et al. (2007)

Table 6 also shows that on Romanian littoral, a number of about 5,000 bed places were lost despite the increase in hotel number, while for Brasov county, the growth was spectacular, in 5 years more than 3,000 bed places were added by new hotels, which number more than double relative to 2005. The case of Brasov is peculiar: beside being a sky destination due to the Poiana Brasov sky resort, the local authorities, led by their mayor, restored the old medieval city center of Brasov and its surroundings starting with 2006, promoted the city and the events that take place during the year and the number of tourists increased, triggering an increase in the number of lodgings. Moreover Brasov has in its proximity the Bran Castle, also know abroad as (one of) Dracula Castles and this tourist attraction also increased the interest for Brasov county. Prahova county has at its heart Sinaia mountain resorts, a popular destination due to the presence of royal Peles Castle and winter sport facilities. The position of Bucharest within Table 6 indicates how important the Romanian capital for the hotel industry is.

[4] The accommodation density at country level, compared with EU-27 could be calculated only as of 2011 since the Eurostat data are of that period. The data take into consideration all bed places available within all accommodation facilities. As of 2011, EU-27 registered an average of 2.9 bed places per squared km. The accommodation density at Romania's level was, as of 2011, 1.3 bed places per squared km. Bucharest had a density of 90.7 bed places per squared km. It was followed by Constanta county with a density of 12.8 bed places per squared km and by Brasov county with 4.7 bed places per squared km. Prahova county has a density of 2.4. bed places per squared km, while Timis county less than 1 bed places (0.8) per squared km.

Considering the county residences, Table 7 shows the top five[5]. Bucharest top position is undisputed due to its role as administrative, business, academic and medical center. The gap between Bucharest and the next ranked city (Timisoara) is important. None of the other four county residences can compete with Bucharest's importance and easiness to reach. Thus, an important growth was registered in the case of Cluj-Napoca and Brasov. These top five county residences concentrate almost 50% of county residences' hotels and over 50% of their rooms and bed places. As of 2013 all the top five county residences witnessed a slight decline in their position; thus they remain the most important destinations among county residences when the hotel availability is considered.

Table 7: Top 5 county residences by hotels

County	2005			2013			Observations
	hotels	rooms	bed places	hotels	rooms	bed places	
Bucharest	86	6,909	12,916	135	9,616	18,612	In establishing the ranking the number of hotels was considered.
Timisoara	33	1,274	2,524	48	1,851	3,634	
Cluj-Napoca	30	1,242	2,403	44	2,026	3,917	
Constanta (city of)	23	951	1,910	38	1,414	2,807	
Brasov (city of)	15	878	1,685	37	1,472	2,943	
% of total hotels in county residences	47.7	51.0	52.0	46.7	51.8	52.0	
% of Bucharest of total county residences	21.9	31.3	31.3	20.9	30.4	30.3	

Source: based on authority of tourism database of 2005 and 2013 and Pop et al. (2007)

Is the concentration of hotels in accordance with tourist arrivals in the respective tourist destinations?

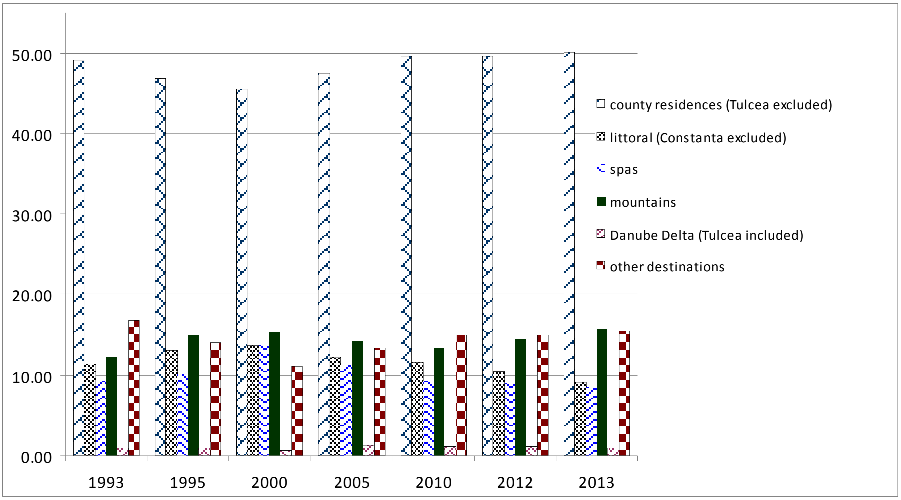
Graph 8 and Graph 9 are showing the tourist and respectively foreign tourists arrivals by main destinations.

As it can be observed, the preference for county residences is obvious, while foreign tourists seem to give almost exclusive preference to these cities. This situation can be explained by several factors: county residences attract business and job related tourism, are easier to reach by main roads, by regular train services and in several cases by airplane (a number of international flights

[5] As of 2013, the county residences ranked on the sixth and seventh position are Sibiu and Iasi and the follow at an important gap, with only 24 hotels each. They are followed by Arad with 23 hotels, Craiova with 21 hotels and Pitesti with 20 hotels. The remaining 31 county residences hosts between 2 and 18 hotels, with an average of 8 hotels per destination.

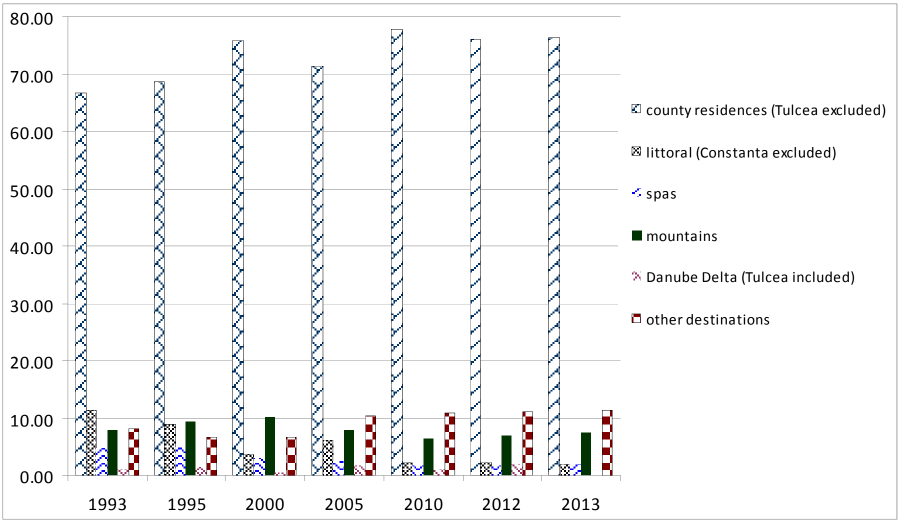
are also available). Several county residences are important academic and medical centers, attracting this type of tourism too (Timisoara, Cluj, Iasi, and Constanta).

Graph 8: Tourist arrivals by main destinations



Source: based on NIS data

Graph 9: Foreign tourist arrivals by main destinations

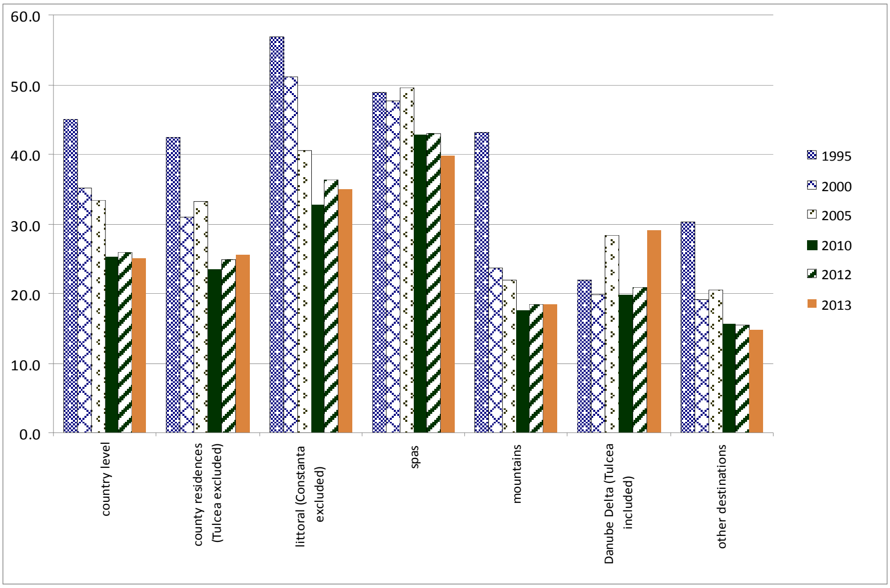


Source: based on NIS (National Institute of Tourism) data

There is an obvious discrepancy between the lodging capacity available on Romania littoral and the preference of tourist for the respective destination. The decline of Black Seaside as tourist destination (mainly after 2000) was induced by several reasons: the average to poor quality of accommodation in hotels which did not undergo the appropriate maintenance and renovation works, the poor quality services outside hotels, including the cleanness of beaches, and the absence of diverse entertainment facilities. These reasons are confirmed by the information presented in Graphs 10 and 11, which show the sharp decrease of littoral hotels occupancy rate from about 60% to 35% and the length of stay from 7 days to 4 days between 1995 and 2013.

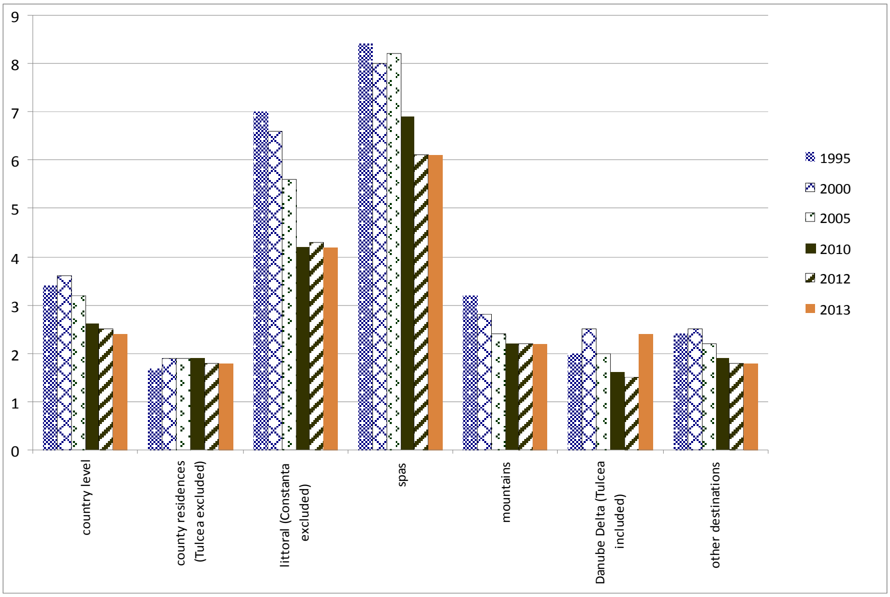
In the case of spa resorts, the situation should be considered under the influence of several factors accumulated during the communist period: these resorts were destined to cater for various treatments and cures for the working population in need of such services. Also they were supposed to provide the treatments for pensioners. As follow, in most spa resorts large hotels (of over 150 rooms) were built, ready to receive an important number of people all year round, while not mass tourist destinations. The 1990s with their lack of investments in hotel industry eroded the treatment facilities quality along with the quality of accommodation, 'frozen in time' at the level of the 1980s. These large hotels became obsolete and not very attractive for younger tourists. The situation was also due to the long postponed privatization of Romanian hotels. Despite the relative poor quality of accommodation and old and obsolete treatment facilities, Romanian spa resorts continued to be visited mainly by Romanian tourists (as Graphs 8 and 9 indicate) due to the relative low prices paid for a period of stay (sejour), in most cases the discount being covered either by labor unions or through the resources available at the level of social security budget (subsidized stays). While the accommodation facilities improved slowly during the first decade of 2000s and treatment facilities were gradually replaced (in some cases) by new and modern ones, because the hotels in these resorts still cater at discounted prices for those with various illnesses or in need of treatments, the Romanian spas are overlooked by the tourists in search of wellness and relaxation. The absence of diverse entertainment facilities is another reason these resorts are avoided, while most of them are located in beautiful natural surroundings, thus not always easy to reach. Due to the discounted services they offer despite the average quality, at best, the spa resorts manage to maintain the highest occupancy rate of all destinations (Graph 10) and highest length of stay (Graph 11), the last being connected with the length of a treatment or cure. The situation presented above is partly confirmed by the study on Romanian spa tourism of Erdeli et al. (2011) and by Aluculesei & Nistoreanu (2014).

Graph 10: Occupancy rate by destinations



Source: based on NIS data

Graph 11: Length of stay by destinations



Source: based on NIS data

Mountain resorts and other destinations seem to attract almost the same amount of tourists, mainly domestic (Graphs 8 and 9). However, both destinations seems not to be able to retain the tourists for longer periods of time, mainly due to the absence of entertainment facilities needed to complete the various tourist attractions. The situation is confirmed by the data plotted in graphs 10 and 11.

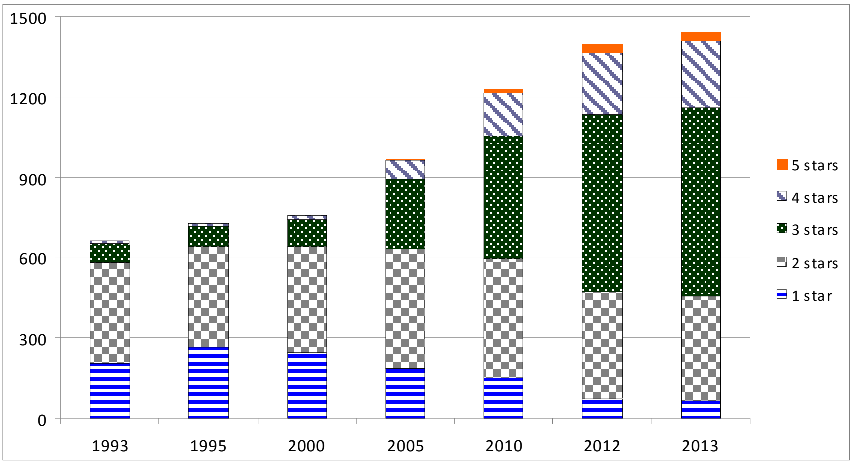
The concentration of Romanian hotels remained under the influence of communist developments. The highest number of hotels and bed places can be found on Romanian littoral, while this destination is loosing its appeal to domestic tourists and presents almost of no interest for foreign tourists. The level of concentration started to shift toward county residences (with Bucharest leading at an important gap) in order to respond to the increased demand for accommodation in these destinations. Spa resorts and mountain resorts remain of some interest, their main problems being the absence of entertainment facilities and, in some cases, the difficulty to be reached by foreign tourists. Danube Delta, due to its status, is only of marginal interest, attracting mainly tourists that love to travel and spend time in a delta environment.

5.3. Hotels ranked by stars

In 1993 Romanian tourism authority changed the classification system for hotels from four categories to five stars. Currently, 1 and 2 star hotels are dedicated to budget/ economy travel segment, the 3 star hotels cover the mid-market segment, 4 and 5 star hotels provide for up-market and luxury segments, as suggested by Pop et al. (2007). It must be specified that the Romanian classification system is based mainly on physical characteristics (room dimensions, lobby dimension, the presence of various facilities) and on the number of services declared to be provided by the respective hotels. The system does not have an evaluation of the services quality and no anonymous guest evaluations are used. Moreover, in some cases, a hotel might have different wings or floors classified at different categories (e.g. one wing at 5 stars and the other wing at 4 stars). In such a case, the hotel is reported within the category of classification comprising the highest number of rooms.

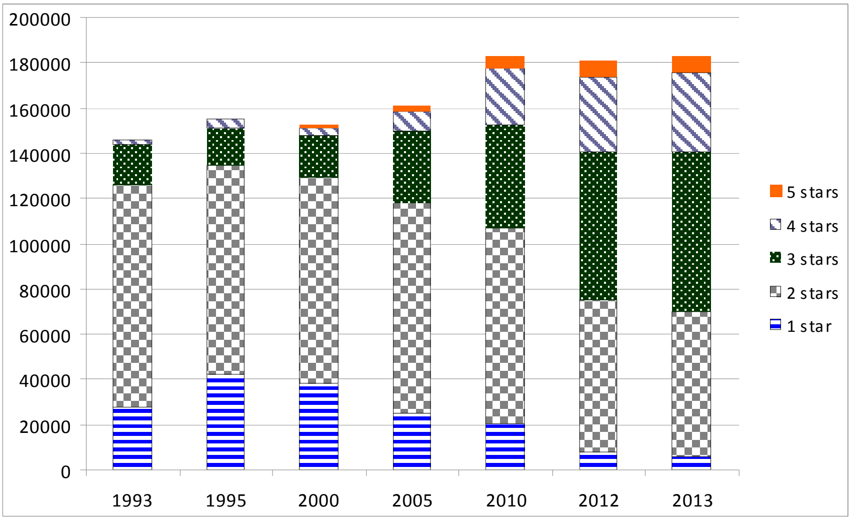
As Graph 12 and 13 shows, as of 1993, the hotel industry was dominated by two and one star hotels. It reflected the structure of hotel industry from the communist period, dedicated mainly to domestic budget tourists with no alternatives than to spend their annual holiday within the country. The structure by stars remained almost unchanged until 2000. The only difference in 2000 is the apparition of a small number of hotels classified at 5 stars. It can be observed that the number of 2 star hotels remained almost the same between 1993 and 2013, mainly due to the reclassification of 1 star hotels after undergoing renovations and modernization works. In 2005 a change in structure became obvious, the 3 and 4 star hotels becoming more important. By 2013, the number

Graph 12: Hotels by stars



Source: based on NIS data

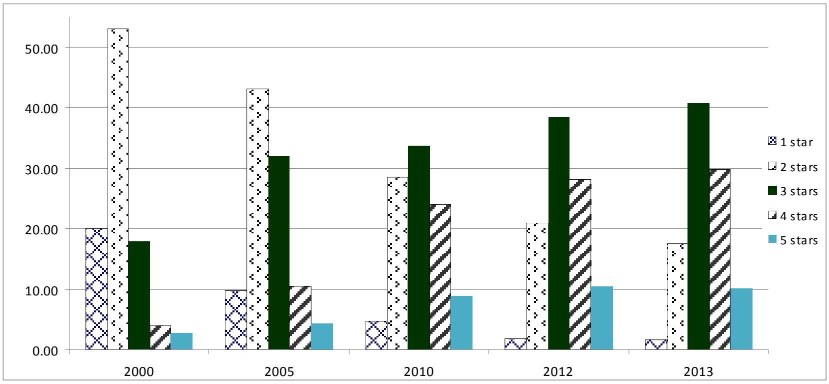
Graph 13: Bed places in hotels by stars



Source: based on NIS data

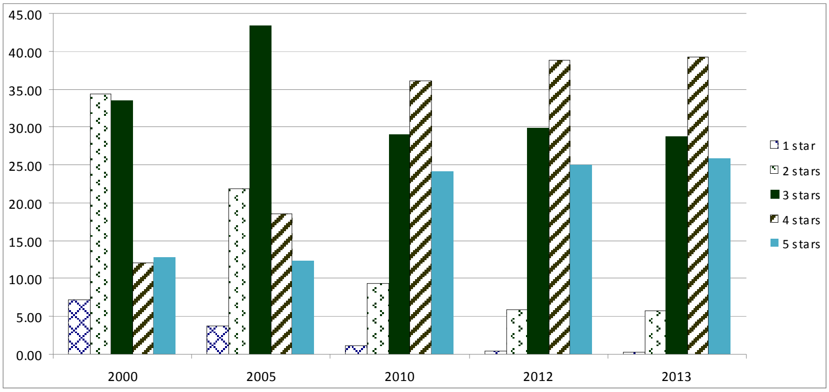
of 3 star hotels overpasses the combined number of 1 and 2 star hotels. This is in concordance with the arrival of tourists by hotel category (Graphs 14 and 15); the tourist preference toward 3 and 4 star hotels being obvious. Thus, when the bed places in hotels are considered, the 2 star hotels concentrated the majority of lodging capacity. Until 2010 the growth in number of 3 star hotels did not managed to balance the bed places in 2 star hotels. This balance was reached in 2012 and it is supposed to be generated by a wave of former 2 star hotels reclassified to 3 star hotels, after various renovations and improvements. The number of 4 and 5 star hotels also grew, but their importance within the hotel segment remain low, as expected mainly when 5 star hotels are considered due to the relative narrow niche of luxury tourists.

Graph 14: Total arrivals in hotels by stars



Source: based on NIS data

Graph 15: Foreign arrivals in hotels by stars



Source: based on NIS data

Romanian hotel industry evolved from a budget/economy (2 star) room supply toward a mid-market (3 star) room supply. However, not only the tourist preferences generated this shift; this change in preferences can also be triggered by the absence or limited choices regarding the budget/economy hotel offers. The Romanian hotel owners/ investors have the tendency to confound low star hotel classification with low quality, when in fact this means just smaller rooms and a lower number of services available for tourists within a hotel. Moreover, this perception is combined with the fact that in most cases the owner perceived the hotel trophy property, as highlighted by (Pop & Coros, 2011). The combination of these distorted views generated a trend toward new or renovated hotels of 3, 4, or 5 stars.

Thus, this trend is not supported by the data regarding the occupancy rate by stars and the length of stay by stars, as Table 8 indicates. The two star hotels exhibit a higher occupancy rate and a longer length of stay. This situation is partly due to the two star hotels concentration in spa resorts, where the length of stay is related to the recommended treatments and/ or cures.

Table 8: Occupancy rate and length of stay by stars

Year	Occupancy rate (%)					Length of stay (days)				
	1 star	2 stars	3 stars	4 stars	5 stars	1 star	2 stars	3 stars	4 stars	5 stars
1995	50.7	50.2	47.5	40.4	n/a	3.4	3.2	2.6	3.3	n/a
2000	41.8	45.0	37.7	35.7	40.3	4.1	4.0	2.6	2.7	1.7
2005	41.1	45.1	36.2	32.8	39.7	3.9	4.5	2.3	2.2	1.8
2010	32.1	35.2	25.5	26.1	32.1	3.7	4.4	2.2	2.0	1.5
2012	27.7	37.2	28.7	30.5	36.1	3.3	4.4	2.4	2.0	1.5
2013	24.1	34.7	30.1	30.8	32.1	2.8	4.3	2.5	2.0	1.6

Source: based on NIS data

The sharp decrease of budget/ economy hotels within all destination with the exception of spa resorts is presented in Annex 2 for two star hotels in comparison with the increase of mid-market (three star) hotels. This trend hints at the lack of vision of Romanian hotel owners and developers. They completely ignore the young (foreign and domestic) tourist segment which has few options within a, usually, limited travel budget, given the small number of Romanian hostels. Other tourist niches are ignored, like domestic tourists traveling for medical reasons or the companions of those who have to undergo medical procedures, or those who travel for personal reasons and with a limited travel budget. All those tourists (mainly domestic probably) would rather prefer a quality budget/economy accommodation rather than a mid-market one. A lower accommodation price also might induce an increased length of stay.

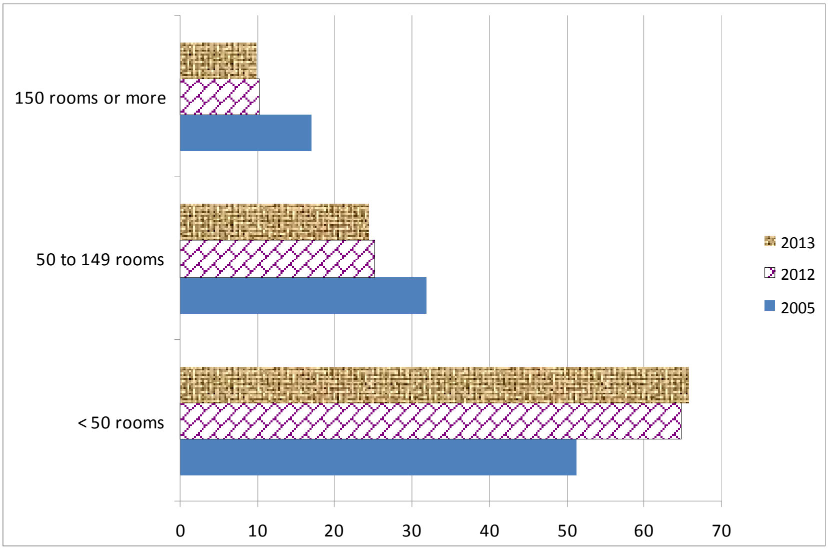
In Romania, only Continental Hotel Group owner, Radu Enache, embraced this idea and tried to develop within its group the two star brand Hello. However, with only one hotel in Bucharest, thus it seems to be successful, the idea came to a standstill.

Nevertheless, if the number of three star hotels will continue to grow while the occupancy rate of that segment will continue to drop, probably a shift in hotel owners and developers' visions and decisions is expected to occur.

5.4. Hotel lodging capacity

The scale suggested by by Bohdanowicz (2005) and used by Pop et al. (2007) is used within the present paper to discuss the Romanian hotel lodging capacity. The scale splits hotels in three categories: small hotels with less than 50 rooms, medium sized hotels with a capacity between 50 and 149 rooms and large hotels with 150 rooms or more. Graph 16 presents the situation of the three categories in 2005, when they were first identified by Pop et al. (2007) and in 2012 and 2013. The dominant position of small hotels is obvious; this category increased its share within domestic hotels with about 15 % over the last 9 years.

Graph 16: Hotel structure by number of rooms (%)



Source: Based on Pop et al. (2007) for 2005 and on the authority of tourism database for 2012 and 2013

Table 9 presents the evolution of the average number of rooms per hotel in comparison with lodgings. The data support Graph 16 information and also the data presented in the previous paragraphs which indicated this trend of new entries of small capacity. Compared with the 1990, by 2005 a number of 15 rooms were lost per hotel, while as of 2013 this number increased at 38. The decrease in Romanian hotel lodging capacity was also generated by the modernization and renovation works performed within larger hotels (see Annex 3); in other cases floors or wings were closed due to the inappropriate state of rooms.

Table 9: Hotels and lodgings average number of rooms

	1970	1980	1990	2000	2005	2010	2012	2013
Hotels	86	104	101	97	86	74	65	63
Lodgings	52	63	55	45	34	30	26	25

Note: NIS does not report the number of rooms, the data above was obtained by dividing the bed places by 2, a standard room having usually 2 bed places
Source: based on NIS data

The trend toward small new hotels was generated by multiple reasons: a) the absence of appropriate financial resources for medium or large developments between 1990 and 2003/2004; when the resources became available, most of the small companies interested in developing a hotel did not qualified for the required loans; b) the preference of Romanian small business to rely mainly on their (usually limited) internal financial resources; c) in Romania there were no commercial real estate investment trusts (REITs) and no specialized developers for hotels or complex real estate development projects. Only since 2010-2011 some sporadic news occurred regarding several intentions of some developers to include hotels in real estate projects; d) mainly within cities and towns, the new small hotels are in fact reconverted old buildings which limited development options; e) even if the hotels were new, as in many urban areas today, the availability of space imposed its restrictions on the hotel number of rooms.

Table 10 presents the hotel dimensions by stars, indicating that the 2 star hotels (most of them constructed during the communist period) represent the category with the highest concentration of large hotels.

Table 10: Hotel number by stars and by rooms

Scale	2005					2013				
	1*	**2***	**3***	**4***	**5***	**1***	**2***	**3***	**4***	**5***
< 50 rooms	97	188	214	44	3	39	236	578	157	9
50 to 149 rooms	43	160	92	29	3	10	116	149	88	16
150 rooms or more	17	97	39	16	6	1	56	52	36	6

Source: Based on Pop et al. (2007) for 2005 and on the authority of tourism database available on-line for 2013

In Annex 3 are presented the largest Romanian hotels (over 400 rooms) and Annex 4 presents the concentration of these hotels. Annex 3 shows a decrease in the number of these large hotels, with only one entry in 9 years. The information from Annex 4 confirms the idea presented above, that the communist authorities concentrated their efforts on Romanian littoral, in several spa, and in Bucharest resorts for building these large hotels.

Since Romania is not a mass tourism destination, most of its tourist attractions not being easy to reach, the small hotels are better suited to cater for small groups, families or individual tourists. However, despite the fact that the average lodging capacity per hotel decreased, Romanian hotels seem not to be able to sell their rooms and keep their tourists for longer periods, as the data presented above for occupancy rate and length of stay have shown (Table 8). The reasons can fill pages: from the quality of services offered to the room rates, from the attitude of hotel employees and reception desk clerks, to the kitsch environment created by owners who 'know it all'. However, every hotel should be considered individually and not all the reasons apply to all. What Romanian hotels are lacking is a coherent and uniform attitude toward tourists and the quality of services; the data in Annex 7 indirectly confirms this idea. All these could be learned from international hotel groups or consortia. However, the presence of foreign hotel brands in Romania is relatively scarce, despite the growth registered between 2005 and 2013 and will be discussed within the next paragraph.

5.5. International hotel groups and chains[6] penetration rate

The first to calculate the international brand penetration rate as of 2005 at Romanian level were Pop et al. (2007). According to this source, the penetration rate from hotel number point of view was 2.22% and 4.19% when rooms were considered (pp.116-117). The low penetration rate of international hotel brands at Romania's level was further confirmed by Baltescu (2009) and by Cosma et al. (2010).

[6] The working definitions for hotel chains and hotel groups are further presented. A *hotel chain* is a collection or grouping of hotels under one recognizable brand regardless of their legal status (subsidiaries, franchises, management contract). O'Neill & Carlbaeck (2011) suggests that the minimum number of hotels for a hotel chain should be three. The majority of hotel chains are profit oriented and currently they are operated through a management company. The concentration of hotel industry generated the nascence of complex hotel groups. A *hotel group* is an organization that includes one or several hotel chains which generates a collection of brands, a management company and, in some cases, specialized financial subsidiaries. The hotel groups' development strategies include direct ownership, management contracts and franchising contracts. Another type of hotel chains is represented by the voluntary hotel chains. A voluntary hotel chain is a non-profit organization, which use just one brand and which bases its development on voluntary affiliations. Best Western is the most notorious example of a voluntary hotel chain. Given the increased competition within the hotel industry the number of voluntary hotel chains decreased; part of them became profit oriented hotel chains, others were transformed in consortia.

As of 2013, the penetration rate at hotel level was 2.84% and at room level 7.31%. These figures should be considered under the reserve of missing hotels for various reasons from the official database. Details are provided in Table 11.

The top position held by Accor in 2005 was lost in favor of Ramada brand of Wyndham Hotels in 2013. Thus, Accor retains a strong second position, followed at an important gap by Louvre Hotel Group with the Golden Tulip brand.

Bucharest concentrates the majority of branded hotels and rooms, thus its position declined in 2013 compared with 2005 as international brands started to spread slowly mainly within other county residences.

Table 11: International hotel groups in Romania (as registered within the authority of tourism data base)*

Group/Brands	2005		2013	
	Hotels	Rooms	Hotels	Rooms
InterContinental Hotels Group	**2**	**351**	**2**	**421**
InterContinental	1	187	1	257
Crowne Plaza	1	164	1	164
Wyndham Hotel	**2**	**396**	**11**	**1,877**
Howard Johnson	1	285	1	285
Ramada	1	111	10 (4 in Bucharest)	1,592
Hilton Hotels & Resorts**	**1**	**272**	**3**	**534**
Hilton	1	272	2 (1 in Bucharest)	387
Double Tree by Hilton	-	-	1 (in Oradea)	147
Marriott Hotels	**1**	**402**	**1**	**402**
J.W.Marriott	1	402	1	402
Best Western***	**7** (1 in Bucharest)	**731**	**8** (2 in Bucharest)	**525**
Accor	**4**	**770**	**6**	**1,221**
Sofitel	1	203	-	-
Pullman	-	-	1	203
Novotel	-	-	1	258
Ibis	3 (2 in Bucharest)	567	4 (2 in Bucharest)	760
Louvre Hotel Group	**2**	**153**	**5**	**636**
Golden Tulip	2	153	5 (2 in Bucharest)	636
NH Hotels****	**1**	**78**	**1**	**76**
Danubius Hotels*****	**1** (in Sovata)	**160**	**2** (all in Sovata)	**346**

Group/Brands	2005		2013	
	Hotels	Rooms	Hotels	Rooms
Hunguest Hotels******	**1** (in Miercurea Ciuc)	**108**	**1** (in Miercurea Ciuc)	**65**
K+K Hotels	-	-	**1**	**66**
Europa Group Hotels	-	-	**1**	**92**
Europa Royale	-	-	1	92
Vienna International Hotels	-	-	**1**	**177**
Angelo	-	-	1	177
The Rezidor Hotel Group	-	-	**1**	**424**
Radisson Blu	-	-	1	424
Total*******	**22**	**3,421**	**44**	**6,862**
of which in Bucharest (%)	59.1	74.3	50.0	62.0

*Note *:* where no mention is made under the hotel number, those hotels are located in Bucharest
*Note**:* On Hilton website a Double Tree by Hilton is located in Bucharest; however, this hotel is not in the official database, probably due to re-authorization procedures. At the beginning of 2014 a Hamptons by Hilton was opened in Cluj-Napoca and two others were announced for the end of 2014 and 2015 in Iasi and Brasov (www.travellermagazin.ro). Also a Double Tree by Hilton was announced to be opened in Ploiesti, thus no news could be found on this topic.
*Note***:* Best Western is a voluntary hotel chain and has as only brand its name. According to Best Western website, 10 hotels are affiliated in Romania. However, two hotels, from Zalau and Baia Mare, are missing from the official database, probaly due to re-authorization procedures.
*Note****:* NH Hotels group indicated also a NH Timisoara Hotel; this is absent from the official database, probaly due to re-authorization procedures.
*Note*****:* The third hotel owned by Danubius in Sovata was closed due to renovation and modernization works during 2013 and therefore absent from the official database.
*Note******:* Hunguest, like Best Western, is a voluntary hotel chain and has Hunguest as the only brand.
*Note*******:* Another hotel, from Cluj-Napoca, is integrated within the Italian Select Hotel Collection, a family owned group. There is no clear reason why the hotel is not registered in the official database since it is open and receiving guests since 2011.
Sources: For 2005, Pop et al (2007). For 2013 cross information between the hotels on groups' websites as of December 31, 2013 and the hotels registered within the authority of tourism official database

If the penetration rate is to be considered by county residences, at the level of 2005 Bucharest position was undisputed with a 15.12% at hotel level and 36.78% at room level, while the other destinations hosted 1 or 2 branded hotels. At the level of 2013, the situation slightly changed. While Bucharest has an increased penetration rate of 16.30% at hotel level and 44.25% at room level, a county residence arose as competitor. The city of Sibiu with a penetration rate at hotel level of 20.83% overpasses Bucharest. Thus, at the room level, with 39.21%, Sibiu lags behind the Romanian capital. The particular situation of Sibiu is due to its position as European Capital of Culture, along with Luxembourg, for 2007 which triggered an increased interest for this destination in the years that followed.

Table 12 presents the penetration rate by stars and by lodging capacity. Combining the information from Table 11 with Table 12, the majority of international brands that entered Romania are suited for up-market and luxury hotels and this situation is reflected by the penetration rate. Also medium and large scale hotels are more likely to be integrated under an international brand umbrella, given the specific requirement of the respective brands. What obviously are lacking at Romanian hotels level are appropriated brands for the numerous small, mid-market hotels. On the other hand, this absence hints at two possible reasons: a) the lack of knowledge regarding the possibilities of affiliation to mid-market brands; b) the domestic hoteliers desire to keep their independence, in spite of the low occupancy rates and, probably, the low profitability.

Table 12 Penetration rate by hotels' stars and lodging capacity

	2005		**2013**	
By stars	**Hotels**	**Rooms**	**Hotels**	**Rooms**
2 stars	-	-	0.25%	0.47%
3 stars	2.65%	4.96%	1.03%	2.52%
4 stars	8.99%	14.57%	10.32%	20.72%
5 stars	45.45%	82.13%	19.35%	47.83%
By lodging capacity	**Hotels**	**Rooms**	**Hotels**	**Rooms**
< 50 rooms	0.58%	0.98%	0.39%	0.56%
50 to 149 rooms	2.52%	1.31%	5.80%	6.60%
>150 rooms	6.51%	6.35%	11.92%	13.30%

Sources: For 2005, Pop et al (2007). For 2013 the authority of tourism official database.

While for 2005 no survey was conducted in a trial to determine the presence of international hotel consortia[7] in Romania, for this paper their presence was identified as of 2013. Using the top 25 hotel consortia lists

[7] The working definition for a hotel consortium for the current paper is the following: a hotel consortium is an association of (small) independent hotels based on voluntary membership and/ or affiliation. Through a consortium, the member/ affiliated hotels combine resources in order to establish corporate management services such as marketing and promotional activities, reservation systems, purchasing, personnel training, revenue management, management consulting, concept/ product development, financial assistance (Roper, 1992, Holverson et al., 2008). The main difference between a consortium and a voluntary hotel chain is the absence of a brand in the case of consortium. No common name is used for the member/ affiliated hotels at a consortium.

published by Hotel Magazine between 2007 and 2013, only 3 international hotel consortia were identified within Romania: Minotel Consortium, Utell, and Hotusa Hotels Consortium[8]. Only Hotusa has two affiliated hotels of which one is the NH Bucharest. The presence of consortia can be considered almost negligible. This is a negative aspect since consortia, along with voluntary hotel groups, are appropriate for the dominant three star small hotels, as highlighted by Hubertus (2000) and Holverson and Revaz (2006).

The relative low penetration rate of international brands and the virtual absence of affiliations to consortia might hint to the lack of vision and strategy of Romanian hotel owners. In most cases, when the decision to open a new hotel is taken, the idea to operate it under a known brand or to affiliate it to a consortium is ignored. The hotel is built or an old building is modified according to owners ideas and by the time when a potential affiliation or a franchise contract is considered, either the building does not fulfill the standards of the considered brand/ consortium, or the alteration needed are too many and/ or too expensive and the idea is abandoned.

This situation reduces considerably the visibility of Romanian hotels especially at the level of foreign tourists which will have the tendency to limit their choices to branded and up-market properties when selecting a hotel.

5.6. Romanian hotel groups and hidden hotel groups

The first attempt to identify the Romanian hotel groups was made by Pop et al. (2007). The authors included in the category of hotel groups all the economic entities owning three hotels or more. As of 2005, 34 hotel groups were identified.

For the present paper the analysis was limited to the hotel groups that include five hotels or more. This limit was imposed by the frequent changes that occurred within the smaller hotel groups of three and four hotels and the difficulty of tracing them down.

Table 13 presents the Romanian hotel groups including five hotels or more. It must be mentioned that with the exception of 3 hotel groups (Turism Felix, Ana Hotels and ARO Palace Grup), the other groups include also in their lodging portfolio other types of accommodations. For the current study, only the owned hotels were considered. More details regarding the 10 identified groups could be found in Annex 5.

As Table 13 shows, the number of identified hotel groups remained unchanged, with no new hotel group entering the list. The most obvious change is the decrease in the number of owned hotels and bed places, mainly in the

[8] As of 2012, a Bucharest hotel was affiliated to Epoque Hotels Consortium; thus the official website of the consortium did not list the Romanian hotel anymore for 2013.

cases of the first ranked group. Given the increase in hotel number at country level and with very small growth rates of bed places in the cases two hotel groups, the concentration level of Romanian hotel industry decreased.

Table 13: Hotel groups in 2005 and 2012 (the same company owning 5 hotels or more)*

No.	Group	2005		2013	
		hotels	**bed places**	**hotels**	**bed places**
1.	Turism Hoteluri si Restaurante (THR) Marea Neagra SA http://www.thrmareaneagra.ro	42	14,935	22	7,532
2.	Sind Romania SRL (or Sind Rom SRL) http://www.sindromania.ro/ (in 2013 the hotels were under administration of 4 other companies controlled by Sind Romania: Alfa Hotels, BN Sind Balneo Turism, Sind Tour Trading and CSDR Sind Turism)	23	10,964	19	8,084
3.	Unita Turism SA http://www.unita-turism.ro/ (including Olimp Estival Hotels)	18	3,554	14	3,478
4.	SC TBRCM SA[9] http://www.tbrcm.ro/	14	3,168	13	3,168
5.	Continental Hotels SA http://continentalhotels.ro/ (including the 4 hotels under Ibis franchise)	13	3,152	13	3,420
6.	RA-APPS[10] http://ra.apps.ro/turism/	13	1,806	8	1,306
7.	Turism Felix SA http://www.felixspa.com/	9	3,058	7	2,376
8.	Ana Hotels SA http://www.anahotels.ro/default-en.html	6	1,373	6	1,742
9.	Aro Palace Grup SA http://www.aro-palace.ro/	6	1,267	5	835
10.	Calimanesti-Caciulata SA www.calimanesti-caciulata.ro	5	1,608	7	1,734
	Total	149	44,885	114	33,693
	% of total hotels/ bed places in hotels	**14.23**	**27.04**	**7.36**	**18.15**

Source: Pop et al. (2007) for 2005 and authority of tourism database for 2013
Note:* only the hotels registered in the official database as of December 2005 respectively 2013 were considered.

[9] The complete name of this company is (in Romanian) Societatea Comerciala de Tratament Balnear si Recuperare a Capacitatii de Munca S.A.. It is a joint stock company and its website does not have any link to an English section.

[10] The complete name (in Romanian) is: Regia Autonoma Administratia Patrimoniului Protocolului de Stat. There is no official translation of this name in English.

While an in depth analysis of every one of these hotel groups can be interesting, for the present paper only several facts will be briefly presented.

Of the ten hotel groups, two are state owned (rank 4 and 6). The remaining eight companies are privately owned by domestic investors. Unita Turism, Continental Hotels, and Ana Hotels can be considered family owned hotel groups since in both cases the majority shareholders are the persons who created the companies along with their family members. Other three companies, THR Marea Neagra, Turism Felix, and Aro Palace Grup have the same majority owner: SIF Transilvania, a domestic closed-end fund listed at Bucharest Stock Exchange under SIF3 symbol. In all three companies SIF Transilvania owns more that 60% of the shares. All the three companies controlled by this investment fund are also listed: THR Marea Neagra and Turism Felix at Bucharest Stock Exchange on the main market under the symbols EFO and respectively TUFE, while Aro Palace Grup start listing at the end of February 2014 at the SIBEX on the ATS (Alternative Trading System) under ARO symbol.

The location of the owned hotels is interesting to be mentioned. In the cases of THR Marea Neagra, Turism Felix, and Aro Hotels the owned hotels are concentrated in just one destination, as Annex 5 shows[11]. In the case of Calimanesti-Caciulata, the bulk of the hotels are concentrated in one destination. Continental Hotels has a different profile, locating its hotels mainly within county residences, while Ana Hotels owns hotels within the most popular destinations in Romania: Bucharest, Black Seaside and Poiana Brasov mountain resort. However, these destinations have also the highest accommodation density.

Of the 10 hotel groups, only two include international branded hotels: Continental Hotels which has an exclusivity contract with Accor for developing and operating Ibis hotels in Romania, and Ana Hotels with two branded hotels in Bucharest: Athenee Palace Hilton Hotel and Crowne Plaza Hotel.

Only one hotel group, Continental Hotels, started the segmentation and branding process for its hotels. It launched the Continental Forum brand in 2007 for the newly renovated and refurbished four star hotels and kept the name Continental as brand for the three star hotels. It was the only group that considered launching a brand for two star hotels: Hello Hotels. Thus, only one hotel in Bucharest is operated under this name. The collaboration with Accor for the Ibis brand might have increased this group brand awareness.

[11] Since these three companies are owned by the same investment fund it can be said that SIF Transilvania owns a diversified hotel portfolio. However, each of the three companies is exposed to the risk related to the destination where the hotels are located. The Black Seaside is only a summer destination, while the popularity of the other two destinations might increase and decrease depending on tourists' choices and preferences. During 2007 and 2008 an idea was launched by Romanian media that SIF Transilvania will merge all the companies under its control. Thus, the idea is no longer mentioned. It is not clear if it was abandoned or is too difficult to be put in practice

Neither of the remaining seven private hotel groups made any attempt to build a brand or to segment the owned hotels. Moreover, in several cases, the hotel groups present themselves of the respective websites as 'hotel chains' ignoring that there is no common name to unify the hotels. Most of the time the tourists, even the domestic ones, are not aware that the hotel they chose (mainly through booking websites) belong to the same group. Romanian hotel groups are not complex organizations; they are rather a simple hotel grouping under one company that owns the respective hotels and operate them directly. No recognizable brand exists, with the exception of Continental Hotels. Therefore the confusion the owners of these hotel groups are making by calling their organizations 'hotel chains' is easy to understand. The only key element missing is obviously the brand. With no brand to sell the franchising and management contracts are no options when development strategies are considered. As such, the probability of an increase in the Romanian hotel industry concentration level remains low for the years to come.

Along with the identified hotel groups, a number of hidden hotel groups[12] exist at Romania's level. Those hotel groups were partly identified by Pop & Coros (2011) using the information available for the 300 richest Romanians. Surfacing this hidden hotel groups is difficult and a complete list will be almost impossible to deliver. Within the Annex of Pop & Coros (2011) at least 5 persons have under their control five hotels or more. The study also shows that the majority of hotels are owned within groups of companies that include building companies, construction material companies and/ or real estate companies (involved in buying/ selling real estates). Similar to the ten identified hotel groups, the hidden hotel groups are just a grouping of hotels. The study of Pop & Coros (2011) conclude that the main reason of these people to build or/ and own a hotel is generated by their desire to have a trophy or a vanity property. This attitude explains why the brand awareness is low, and the interest for an efficient exploitation of the respective hotels is only marginal as the decreasing occupancy rates and length of stay show.

Thus, through this hidden hotel groups, the degree of Romanian hotel industry concentration might be a little bit higher than the one presented in Table 13.

With only one hotel group, Continental Hotels, trying to build brands and replicate the development of international hotel groups, it can be safely said that Romanian hotel industry does not have a leader and a model. Continental Hotels is a relatively small group and barely visible at international level; its visibility is impaired by its name which can easily be confused with InterContinental Hotels.

[12] A hidden hotel group, for the present paper, is considered a collection of hotels owned by the same person through a number of economic entities all under the respective person control.

For the near future, the segmentation and brand creation process started by Continental Hotels is not expected to be followed. Such a process require dedication to hotel business (which is almost absent in the case of hidden hotel groups and not clearly visible within the identified hotel groups), vision and imagination, and a degree of sophistication that the majority of Romanian hotel owners did not acquired during the past two decades. If some hotel group owners will consider that Continental Hotels got results from its brands development, they will simply try copy the process. In general, Romanian hotel owners are trend or pattern followers and not trend setters as Pop & Coros (2011) also highlight.

6. Discussions and conclusions

Currently the Romanian hotel industry profile depicts a highly fragmented sector, as the low level of concentration within domestic hotel groups and the low international brand penetration rate show. The hotel sector is dominated by privately owned small hotels, of less than 50 rooms, classified at three stars and therefore covering the mid-market segment. The hotel concentration by destinations indicates that the county residences and the Romanian littoral host an important number of hotels, over 30% each. Thus, when the county residences are concerned, of the 41 county residences and the Romanian capital, only Bucharest and four other county residences (Timisoara, Cluj-Napoca, Constanta and Brasov) host an important number of hotels. Combined, these five cities concentrate about 47% of the total hotels and over 50% of the total hotel rooms as of 2013. The gap between Bucharest and the next ranked city (Timisoara) is important and shows the importance of the Romanian capital as administrative, academic, medical and cultural center.

The fragmentation level of the Romanian hotel industry is similar to the European fragmented hotel sector[13]. Thus, while at the European level the main reason for the fragmentation is the uniqueness of the hotel properties and in order to overcome the competitive pressure a number of hotel consortia were created, at Romania's level the reasons for a fragmented hotel sector are different. The delay in privatizing the state owned hotel companies of the 1990s end up in a 'fire sale' privatization between 2000 and 2004 which fragmented the former important hotel groups[14]. The trend of new small hotels entering the market which started around 2004 or 2005 was generated by what was the newly discovered trend of business tourism and MICE (meetings, incentives,

[13] The degree of European hotel industry fragmentation is presented briefly by Holverson et al. (2008).

[14] For example, one hotel group named Neptun-Olimp at Black Seaside was split in at least 21 companies each with one or two hotels. This example can be documented through the RASDAQ market where the group is listed under NEOL symbol.

conferences and exhibitions/events) tourism. Moreover, this trend was enhanced by a secondary trend that arose within Romanian business people community: that owning a hotel, among other assets, is a 'must' for a well established business person. This trend was documented by Pop & Coros (2011) within the top 300 richest Romanians. Neither of these reasons for fragmentation seems to provide a base Romanian hoteliers to consider the affiliation to an international hotel consortia. Until now there is no evidence that Romanian hoteliers consider the idea to launch domestic hotel consortia.

The Romanian hotel industry profile gradually changed from a sector dominated during at the end of the 1990s by the former state owned companies, which mainly included medium to large size hotels classified at two stars. This old profile was completely under the influence of communist period developments which were focused toward domestic tourists spending their holidays either on Romanian littoral, or in spa or mountain resorts since the travel abroad was virtually impossible.

Thus, the change that occurred in Romanian industry profile has numerous flaws. The most important is the lack of correlation of hotel development with tourist flows, as Annex 6 show at country level. More in depth analysis by destinations and by classification categories are needed, thus at least for the Romanian littoral, and mountain resorts, and for 3 star hotels they will show the same uncorrelated trend. The gradually disappearance of budget/ economy hotels from county residences indicates that young and other budget tourists are ignored. The dominance of budget/ economy hotels within the Romanian spa resorts ignores the mid-market and up-market tourists. From the general data presented it can be extracted the following conclusion: the decision to develop a hotel is based on the popularity of a destination and does consider a thorough analysis of supply and demand. To this if one adds the view of the hotel as a trophy property, the flaws in Romanian hotel industry development can be easily understood.

The analysis of Romanian hotel groups has also revealed the absence of a branding strategy within the respective groups, with one exception. If the brand awareness is absent for organizations that are supposed to be role models, it can be safely presumed that is almost unknown at the level of small, independent hotels. Moreover, the low penetration rate of international brands and the virtual absence of international hotel consortia indirectly confirm the lack of strategy in developing and operating hotels. All these facts are confirmed by the findings of Pop & Coros (2011) which suggested that Romanian hoteliers are rather trend followers and not trend setters.

It can be concluded that Romanian hotel industry does not have any special features to enhance the attractiveness of the country as a tourist destination, as the data in Annex 7 show. While the accommodation provided seems adequate to a point, the hotel industry lacks visibility and distinctive features. Romanian hotels are in search of their own identity, as Romania is in search of its identity as a tourist destination. The diverse tourist potential of Romania can not compensate the absence of a strong, efficient and customer oriented hotel sector.

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Annex 1

Types of lodgings as defined by Romanian regulations

During the 1980s	Current
Hotels	Hotels
Inns	-
Lodges	Lodges
Campings	Campsites and cabins in campgrounds, dwellings in resting areas
Guesthouses	Villas
School camps	-
Dwellings in school units	-
Rooms for rent for tourists in private houses	Rooms and apartment for rent to tourist in private homes
	Apartment hotels
	Motels
	Hostels
	Bungalows
	Holiday dwelling complexes
	Urban pensions
	Rural pensions
	Accommodation on cruise or docked ships

Source: Pop et al. (2007) and current regulation Order no.1051/ 2011 issued by the Ministry of Regional Development and Tourism

Annex 2

Two and three star hotels concentration by destination (% of total hotels within the destination)

Two (2) star hotels						
Destination	**1993**	**2000**	**2005**	**2010**	**2012**	**2013**
County residences (Tulcea excluded)	45.10	49.12	35.44	25.10	18.00	17.51
Littoral (Constanta excluded)	55.33	54.18	54.48	50.16	44.31	42.02
Spa resorts	58.76	61.22	66.67	62.18	54.41	50.70
Mountain resorts	55.41	54.17	45.65	33.04	26.90	26.32
Danube Delta (Tulcea included)	45.45	22.22	20.00	13.33	16.67	17.65
Other destinations	46.81	46.08	40.48	30.23	24.88	24.78
Three (3) star hotels						
Destination	**1993**	**2000**	**2005**	**2010**	**2012**	**2013**
County residences (Tulcea excluded)	17.65	21.24	39.34	45.47	54.33	54.17
Littoral (Constanta excluded)	9.02	8.76	13.26	20.26	35.29	37.35
Spa resorts	3.09	6.12	14.17	20.17	28.68	35.21
Mountain resorts	8.11	15.28	31.52	43.48	45.03	45.61
Danube Delta (Tulcea included)	9.09	33.33	60.00	60.00	61.11	58.82
Other destinations	5.32	9.80	26.19	47.09	55.50	56.19

Note: The same trend occur in corresponding bed places, therefore the data for bed places were not reproduced here.
Source: Based on NIS data

Annex 3

Hotels with more than 400 rooms

Hotel name	2005		2013		Location
	rooms	stars	room	stars	
J.W.Marriott Grand	402	5	402	5	Bucharest
Bucharest currently Radisson Blu	446	3	424	5	Bucharest
Muncel	490	2	*289*	2	Spa resort, Baile Felix
Lebada	507	2	*255*	2	Spa resort, Amara
Dacia	535	2	444	2	Spa resort, Baile Herculane
Padis	728	2	*312*	2	Spa resort, Baile Felix
Rin Grand	-	-	489	4	Bucharest

Source: Pop et al. (2007) for 2005 and the authority of tourism database

Annex 4

Concentration of large hotels (of 150 rooms or more)

Location	2005 (174 large hotels)	2013 (151 large hotels)
Bihor county (of which in Baile Felix/ spa resort)	11 (10)	10 (9)
Bucharest	15	18
Caras Severin county – Baile Herculane/ spa resort)	6	5
Constanta county (covering the littoral)	98	81
Valcea county (of which in Calimanesti-Olanesti-Govora spa resorts)	13 (8)	9 (7)

Source: The authority of tourism databases for 2005 and 2012

Annex 5

Selected details regarding Romanian hotel groups

No.	Group	Observation
1.	Turism Hoteluri si Restaurante Marea Neagra SA http://www.thrmareaneagra.ro	Majority shareholder: SIF Transilvania (SIF 3), a Romanian closed-end fund. Hotels' location: Black Sea Littoral Listed at Bucharest Stock Exchange (main market) under symbol EFO. An important number of hotels were sold during the past 7 years.
2.	Sind Romania SRL (or Sind Rom SRL) http://www.sindromania.ro/	Majority shareholder: n/a Hotels' location: various spa resorts all over the country Provides accommodation mainly for various affiliated labor unions, at discounted prices in economy to mid-market hotels.
3.	Unita Turism SA http://www.unita-turism.ro/	Majority shareholder: Joseph Goschy & family Hotels' location: county residences and spa resorts The buying & selling activities are frequent within this company. As of December 2013 about half of the owned hotels were listed for

No.	Group	Observation
		sale on the company website. It behaves rather like an intermediary for buying/ selling hotel properties than a hotel group.
4.	SC TBRCM SA http://www.tbrcm.ro/	State owned through CNPAS (Pensions and Social Security authority) Offers discounted accommodations mainly for pensioners and for working persons in need for various types of recuperation procedures, treatments and cures in order to improve their health Hotels' location: spa resorts all over the country
5.	Continental Hotels SA http://continentalhotels.ro/	Majority shareholder: Radu Enache & family. Hotels' location: in county residences and one on Prahova Valley. Four of its hotels are operated under Ibis brand (Accor).
6.	RA-APPS http://ra.apps.ro/turism/	State owed company (regie autonoma) that offers support services for public administration of various assets/ buildings. Hotels' location: county residences, Black Seaside, Prahova Valley. This hotel group might gradually disappear if the intention to privatize the owned hotels will be put in practice.
7.	Turism Felix SA http://www.felixspa.com/	Majority shareholder: SIF Transilvania (SIF 3). Hotels' location: spa resort Baile Felix, Bihor county Listed at Bucharest Stock Exchange (main market) under symbol TUFE.
8.	Ana Hotels SA http://www.anahotels.ro/default-en.html	Controlled by George Copos & family. Hotels' location: 2 hotels in Bucharest which are operated under 2 international brands (Hilton and Crowne Plaza); 1 hotel is located at Black Seaside; 3 hotels are located in the mountain resort Poiana Brasov (near city of Brasov).
9.	Aro Palace Grup SA http://www.aro-palace.ro/	Majority shareholder: SIF Transilvania (SIF 3). Hotels' location: Brasov city centre. Formerly known as Postavarul SA, the company was listed between November/December 1997 and December 2000 on RASDAQ market.

No.	Group	Observation
		Listed at SIBEX on ATS (Alternative Trading System) since the end of February 2014 under symbol ARO.
10.	Calimanesti-Caciulata SA www.calimanesti-caciulata.ro	Majority shareholder: n/a Hotels' location: 5 of the hotels are in the spa resort Calimanesti-Caciulata; 2 hotels are located on Prahova Valley Was listed between January 1998 and March 2010 on RASDAQ market under symbol CALU.

Annex 6

Descriptive statistics of hotel, hotel occupancy rate and hotel length of stay annual growth rates for the period 1990 to 2013

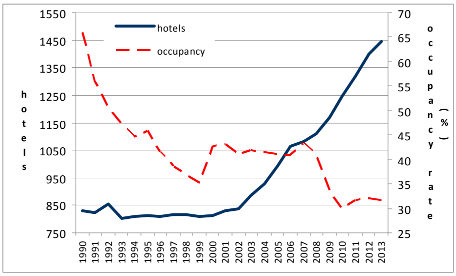
	Hotel growth rate	Hotel occupancy rate growth rate	Hotel length of stay growth rate
Average	2.49217	-2.83304	-0.93217
Standard deviation	3.31199	8.00352	4.54496
Minimum	-6.07	-18.29	-9.09
Maximum	7.35	21.02	6.90
Skewness	-0.91674	1.59860	0.51090
Kurtosis	0.28271	2.65679	-0.87486
Observations	23	23	23

Correlation matrices

	Pearson correlation coefficient			Spearman (rank) correlation coefficient		
	Hotel growth rate (1)	Hotel occupancy rate growth rate (2)	Hotel length of stay growth rate (3)	Hotel growth rate (1)	Hotel occupancy rate growth rate (2)	Hotel length of stay growth rate (3)
(1)	1	0.0659	-0.4777*	1	0.2288	-0.3952
(2)		1	0.3041		1	0.2091
(3)			1			1

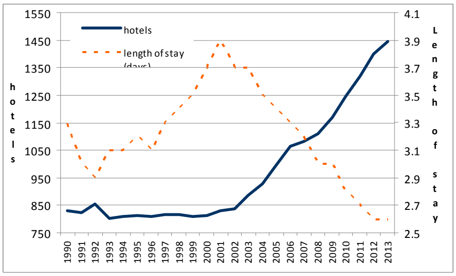
*P-value < 0.05

Graph A6.1 Hotels versus hotel occupancy rate



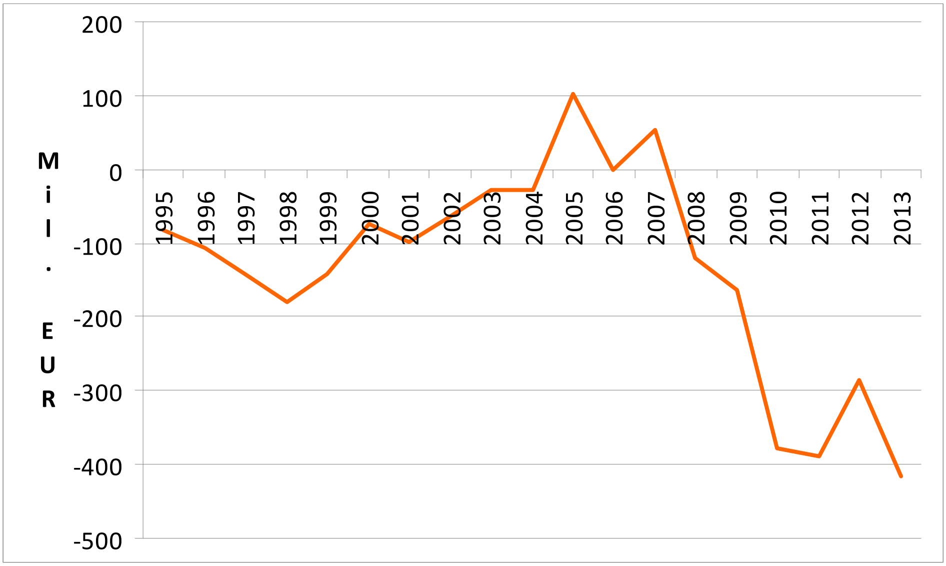
Source: based on NIS data

Graph A6.2 Hotels versus length of stay



Source: based on NIS data

Annex 7
Travel & tourism account balance (million EUR)



Source: based on Romanian National Bank data

Affinity for travel & tourism at Romania's level

Indicator	2007 (of 124 countries)	2008 (of 130 countries)	2009 (of 133 countries)	2011 (of 139 countries)	2013 (of 140 countries)
Tourism openness	**85**	**101**	**118**	**123**	**116**
Attitude of population toward foreign tourists	**76**	**85**	**88**	**87**	**122**
Degree of customer orientation	**n/a**	**n/a**	**n/a**	**n/a**	**114**

Source: World Economic Forum Travel & Tourism Competitiveness Reports

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ROMANIAN HOTELS IN THE DIGITAL MARKETING PRESENT

MARIA-LUMINIŢA COJOCEA[1], MONICA MARIA COROŞ[2]

ABSTRACT. The current marketing trends and the well-known smart communication devices (smartphone, tablet, laptop, etc.) used on a daily basis by more and more people worldwide and by most of the travel industry customers, are here to stay in the travel and hotel industries and far from becoming obsolete. By ignoring them or by remaining in denial about their popularity and the changes they bring, hoteliers will only end up facing the disastrous consequences of their ignorance.

Most of the Romanian hotels are not even in the stage of acknowledging the present technological context, and few are reacting and adapting their marketing strategies, ultimately becoming internationally or locally awarded business models. Nowadays, instant bookings are more difficult to obtain, as customers naturally conduct online individual thorough researches, while trusting peer reviews and social media. Therefore, the question that arises is: *What is the present situation of the Romanian hotels in the digital marketing reality and what can be done to convert it from a disruptive change to a beneficial one?* The present paper aims at identifying the main issues Romanian hotels face currently related to digital marketing media. A special focus regards the international trends and how Romanian hotels react to them.

Key Words: hotels, online, technology, Romania, trends.

JEL Classification: L83

1. Introduction and Review of Literature

Digitalization is today omnipresent. Consequently, hospitality and tourism businesses are not excused from acknowledging the changes it determines at the level of everyday business life.

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According to Deloitte's professionals reveal that: "Whilst the customer has always been king, never before have customers wielded so much power. Organizations today operate in increasingly competitive and international marketplaces, where technology has given both customers and competing suppliers more choice and more access to each other than ever before, and has transformed the way in which customers purchase and consume products. As competition makes new customers harder to find and existing customers harder to keep and satisfy, organizations need a more targeted and continual focus on managing and developing their customer relationships." [Deloitte, 2012]. With the increasing use of digital media by consumers, more companies implement digital marketing strategies trying to reach their target markets. By the end of 2010, the number of worldwide Internet users was expected to exceed 2 billion; moreover, this huge information traffic is estimated to double every 1 to 1.5 years [Take Smith, 2011]. Obviously, in this context, according to Deloitte [2012], technology must be: *easy*, *mobile* and *social*. Still, the ability to quickly connect, communicate and collaborate seems to be limited for many businesses, tourism and hospitality ones included. Only few international hotel chains act like they are aware of such changes and aim at transforming them into fruitful business opportunities.

The revenues obtained in the hotel industry, as well as the ones gained in the hospitality industry, are closely linked to the concepts of loyalty and being up-to-date with the latest digital trends. Technology is most of the times disruptive, and it can be often intimidating to the businesses in any field. On the other hand, the changes, innovations and upgrades it generates, should be embraced as they drive to attracting and retaining younger generations and clients who have a high adoption rate for new technologies and who use them on a daily basis and will continue to do so.

Having in mind the definition of *digital marketing* provided by Technopedia.com [www.technopedia.com]: digital marketing is a broad term that refers to various and different promotional techniques, targeted, measurable and interactive, deployed to reach and engage customers via digital technologies, the analysis will proceed. Only few academic studies have until now addressed digital marketing in the context of the Millennials' behavior; their number decreases even more when it comes to connecting new-marketing strategies to their tourism-related behavior. Concerning the Romanian market there have not yet been identified any recent and relevant studies addressing this issue. Thus, the present paper aims at carrying out an analysis in this respect, and at providing a framework for further and deeper researches.

The International Background

First of all, for a deeper understanding of the subject it is essential to define the segment of tourists who quickly adopt new communication technologies and who use them on a daily basis. It looks like the global business advisors are trend setters and seem to be more oriented towards providing clarifications in this field.

The power of social media was [strongly] demonstrated in July 2009, by the campaign initiated by the Canadian musician Dave Caroll, campaign attacking United airlines, which included a YouTube video, *United Breaks Guitar*. The video has been viewed for over seven million times. [Deloitte, 2014] This video presents the unpleasant experience the musician had while traveling with United, flight during which his guitar was broken due to careless transportation and even though he immediately complained of the situation, the employees treated him with indifference. “This extreme example of a company not meeting the customer’s expected level of service should act as a warning for the industry.” [Deloitte, 2014] The warning is especially significant, as technological changes have also determined modifications of the consumers’ behaviors.

In their latest reports, three of the Big-Four (Ernst & Young, PricewaterhouseCoopers and Deloitte) have addressed the connection between the Internet and hospitality regarding the impact and projections for the coming years. They all agree upon the main features that characterize today’s most technologically connected segment.

The worldwide leader in hospitality practice is Ernst & Young [Ernst & Young Hospitality Services Group]; this global business consultant addresses the generation born between 1980 and 2000 as the “Millennials”. This population segment is: self-assured, optimistic, globally connected and curious. Its members already account for around one-third of all business travel expenses [Ernst & Young, 2014]. Moreover, “in the next 5 to 10 years, as Millennials enter their peak earning years, this generation will provide the majority of spending for travel and leisure” [Ernst & Young, 2014]. Millennials in the US grew up during a time characterized by rapid technological advancement which influenced their views on tourism [Ernst & Young, 2014]. As identified by Ernst & Young, based on the organization’s researches [Ernst & Young, 2014], some of the most important characteristics of a Millennial are the following ones:

- *persistent auto-biographer:* many Millennials document their life experiences through social media, primarily focusing on funny, unique, inspiring or artistic content in order to attract followers and stir up responses;

- *undercover critic:* due to websites and mobile device applications such as TripAdvisor and Yelp, hotels are under more scrutiny than ever to deliver their best service 24/7; when faced with an issue during their stay, Millennials are less likely to complain in person and more likely to post critical feedback online; in order to capitalize on such real-time reactions, major hotel companies need to shift their customer care focus to online media so they can express appreciation, respond to complaints, offer ways to help the customer and mitigate damage to their reputation;
- *social being:* although Millennials place less importance on face-to-face contact than prior generations, they have a strong desire to be actively social, including via telecommunication and social media;
- *smart spender:* with access to more information – but tighter wallets – Millennials are pickier about consuming and spending; in order to address the smart spender, hotels need to become smart operators and to invest their funds into places that will attract the customer.

PricewaterhouseCoopers [2014] endorses Ernst & Young and adds that the use of smartphones and tablets for hotel reservations and reviews is about to overtake the "traditional" way of web-based booking. Moreover, this segment [PricewaterhouseCoopers, 2014] has a strong voice through social media and has more confidence in it than it has in advertising: "online reviews are very influential, especially with Millennials. Encourage Millennials to write online reviews by giving them a discount or a cupon as an incentive. This generation responds well to rewards. A 'freebie' may be a small price to pay in return for a positive review that is read by numerous Internet shoppers". [Taken Smith, 2011]

Further, Deloitte [2014] agrees that the social media frenzy has taken the world by storm in the last few years and reports that by 2015 this will become truly integrated in the travel and hospitality decision-making process, representing both threats and opportunities: "the transparency of social media can highlight any inconsistencies between the brand pledge and its execution across geographic boundaries. Websites such as TripAdvisor are often the new customers' first point of call. Whilst this represents a real challenge for brand owners, it also offers unparalleled opportunities for consumer feedback and opens new channels of communication between the brand and its customers." Also, the same specialists [Deloitte, 2014] highlight the importance of embracing the influences of social media and of not trying to resist them by engaging consumers in a dialogue that, eventually:

- *builds* awareness and community,
- *increases* web traffic and search rankings, and
- *draws in* potential new guests.

Today, when there are more than 1.5 billion people around the globe with Internet access, when their number is forecasted to increase by around 50 % until 2015, "operators need to embrace the world online and ensure they deliver their brand through multiple (and ever-changing) channels" [Deloitte, 2014]. Consequently, depending solely on Booking.com and/or on TripAdvisor or on any other online reservation platform for reservations can prove to be a dangerous approach adopted by hoteliers.

The advent of online booking intermediaries has revolutionized the hotel industry. Companies like Expedia, Hotels.com, Hotwire or Booking.com are essential to the success of any hotel because they draw in a lot of the much desired clientele. At a glance, the arrangement between the hotels, customers and intermediaries works quite well. The customer gets to buy a hotel room at a cheaper rate compared to the situation if they booked directly with the hotel, the intermediary gets to take a certain percentage off the bill, while the hotel gets a new way to attract more clients and, consequently, to increase their business. [Unknown author, 9.9.2011]

In this respect, "studies show that over 50 % of all hotel nights booked in Europe are booked through Booking.com. This level of market consolidation has been a bonanza for independent hotels. Without any brand recognition, Booking.com has become the ideal digital marketplace to promote and sell their rooms to guests from all over the world." [Guestcentric, 12.12.2012] Moreover, Booking.com is obsessed with providing the best possible prices to consumers, having the highest customer satisfaction rate of independent travel websites, mainly due to pricing competitiveness [Guestcentric, 12.12.2012].

According to the same analysis [Guestcentric, 12.12.2012], hotels have little bargaining power due to facts such as:

- Booking.com's flat commission model has been replaced by one of bidding for positions on the first page of a destination; it is not infrequent that hotels pay over 20 % in commission to be on the first page of the recommended properties in their city and/or area.
- Booking.com recently started taking one-sided decisions on how their system operates and forcing hotels to adapt;
- Booking.com recently reserved the right to automatically resell a room that one of its customers has canceled;
- guaranteeing and securing rooms for a better position on Booking.com can be a tricky issue when the hotel is fully booked by partner travel agencies but it is consistent with the hotels' policies concerning overbooking;
- if Booking.com were to raise its commission margins there is little that hotels can do about it.

It is important to have a multi-channel digital marketing strategy that ensures hotels' digital presence. Achieving such an online presence would include, among other factors [Guestcentric, 12.12.2012]:

- great looking websites;
- multi-channel reservations;
- optimization for mobile devices;
- collecting guest information;
- presence on social platforms.

Obviously, on one hand, hotels need to have a multi-channel digital marketing strategy, in order to avoid any kind of dependence upon any service for their online revenue, and so that they are sought out by potential clients no matter what search engine they use when conducting the search. [Guestcentric, 12.12.2012]

On the other hand, "tools such as Facebook, TripAdvisor and Twitter play an increasingly important part in the traveler's pre-departure research. As many as one in five travelers are now using these sites prior to [their] departure, while up to one in ten travelers are actually contributing to the sites." [Deloitte, 2014] Even a considerable number of travel agents also rely on information provided by TripAdvisor and Booking.com reviews when they make recommendations regarding accommodation facilities.

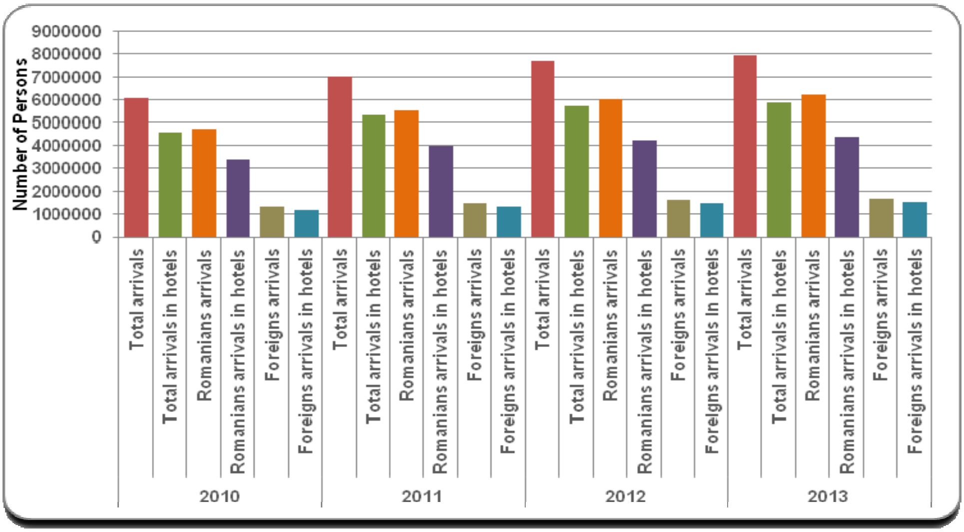
Despite the fact that this segment is expected to grow and to become the majority of the population only in the coming five to ten years, it is essential for hotel managers and/or owners to discover and understand this group's perceptions and expectations. Some of the key approaches [Ernst & Young, 2014] to capture Millennials are to:

- "connect with a purpose;
- realize the importance of experience;
- adopt an adaptive cross-industry perspective; and
- integrate new technologies and enhance social presence."

All of the above-mentioned aspects regarding digital media are perfectly valid for the case of the Romanian hotels, too but they are only beginning to be known and shyly applied. It is of high importance for hoteliers (all over the world and for the Romanian ones, likewise) to understand that "the increasing use of online social media will shine a spotlight on how successfully and how consistently operators fulfill their brand promise. Proactive operators will benefit from this communication revolution; those slower to adapt may see their brands pilloried in the full glare of the online public area." [Deloitte, 2014]

Romania – An Overview

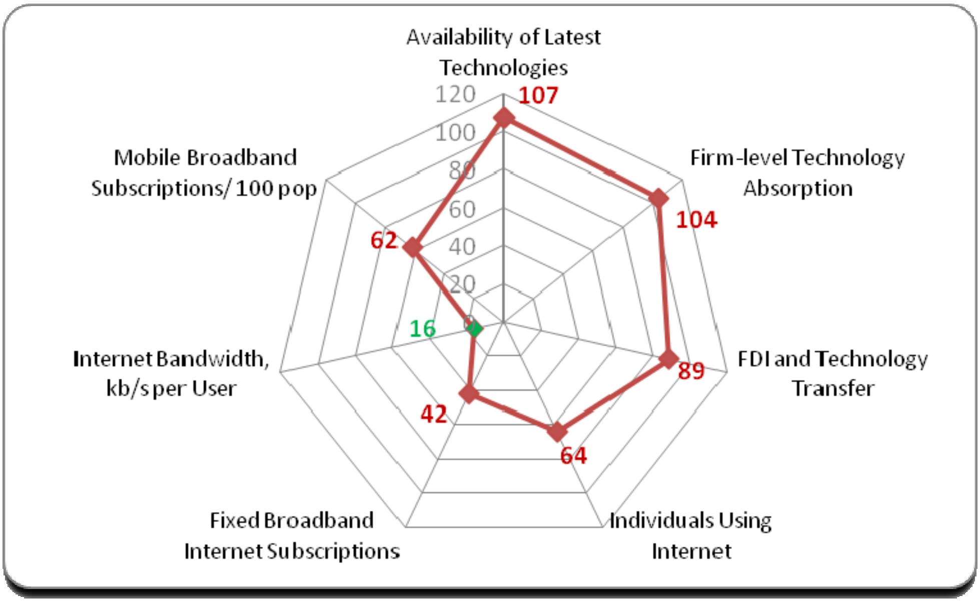
Indeed, the above reports regard hospitality worldwide but one has to take into consideration that according to the latest data provided by NIS (National Institute for Statistics, Romania), in the last four years the number of tourist arrivals has increased each year, both for Romanian and foreign tourists. Obviously, the number of Romanian and foreign tourist arrivals in hotels has increased. Moreover, the majority of tourists prefer to be accommodated in hotels, regardless of the type of tourists.



Graph Nº 1. Arrivals in Romania and in Hotels by Types of Tourists (2010-2013)
Source: National Institute for Statistics (NIS), *Annual Yearbooks* 2010-2013, Bucharest.

Total foreign arrivals in Romania and in hotels represent around one-fourth (Chart Nº 1). These numbers and percentages are not to be ignored considering the fact that foreign tourists have substantially higher financial resources compared to Romanian tourists. Hotels also account for the largest accommodation capacity. Thus, hotels need to take action in order to attract foreign tourists, and, of course, more of the Millennials, who, according to the latest national branding strategy [*Explore the Carpathian Garden*], constitute an important part of the tourists targeted by Romania: spontaneous tourists, eager to discover new and unexploited attractions, interested to experiment new destinations and things. They can be split into two distinct categories: *a) smart/ discerning travelers* who include young people between 25 and 35 years, more exactly, young adventurers, interested in independent travels, rather than in planned, programmed and predictable vacations, and who prefer to refer to themselves as travelers and not tourists because they do not visit mass tourism destinations; and *b) empty-nesters*, consisting of people living in metropolis, always seeking escapade and relaxation but who also practice a healthy lifestyle.

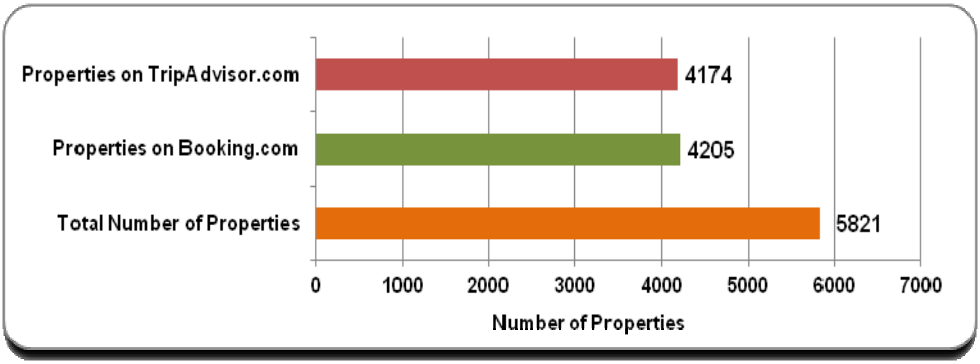
Concerning technology, according to the *Global Competitiveness Report 2013-2014* [World Economic Forum, 2014] on the *9th Pillar: Technological Readiness*, among the 148 countries analyzed Romania ranks quite poor regarding *Availability of Latest Technologies* (107) and *Firm-level Technology Absorption* (104). Moreover, the indicator *Individuals using Internet* (64) ranks too low compared to the *Internet Bandwidth per User* which ranks very high (16), meaning that there still are few individuals using the Internet, compared to the Internet bandwidth available. The graph below (Chart Nº 2) indicates that firms are absorbing new technology quite slowly and that they are not responding to the rather large amount of individuals who are connected to the Internet and to mobile devices.



Graph Nº 2. 9th Pillar: Technological Readiness
(1=best position; 148= worst position)
Source: World Economic Forum (2014), *Global Competitiveness Report* 2013-2014.

Compared to the other 14 countries in South-Eastern Europe, Romania ranks first only for Internet bandwidth. In what concerns the other indicators, Romania ranks on the last places. Even countries such as Bosnia and Herzegovina, Macedonia, FYR and Montenegro rank higher than Romania (Appendix 1).

Surprisingly, Romania ranks first worldwide in terms of free access to Wi-Fi as a service commonly provided by hotels, a huge advantage most of hotel owners do not know how to exploit at its maximum potential in order to attract guests and especially Millennials. Therefore, although social media promotional tools and other digital marketing means exist, the knowledge is the one that lacks in most cases. [Oncu, 28.4.2014]



Graph Nº 3. The Presence of Romanian Hotels on Booking.com and TripAdvisor
Sources: NIS (2014), *Annual Tourism Yearbook* 2013, Booking.com, and TripAdvisor.com.

Regarding digital media, a percentage of 72.2 % of the Romanian properties are present on the world leader in booking accommodation online, Booking.com [About Booking.com] and 71.7 % are present on the world's largest travel site that provides trusted advice, TripAdvisor [About TripAdvisor]. Therefore, there is still an important percentage of almost 30 % of the accommodation facilities that are not present on these booking platforms, perhaps mainly of the 1 and 2* classification levels but not only.

The exact number of Romanian hotels present on Booking.com and TripAdvisor cannot be properly quantified. By selecting the "hotels" query when searching properties, the results will reveal hotels but also villas, tourist boarding houses, hostels and many other properties all registered under the hotels category. However, it is important to have in mind that on Booking.com, property owners and/or managers are the ones who register the accommodation unit, meaning that they opt to declare the facility a hotel as a way of increasing revenues. On the other hand, on TripAdvisor usually guests are the ones who register a property in order to add a review. By connecting their property to TripAdvisor, hoteliers have the possibility to answer to their guests, in order to overcome the negative impact of reviews and to make the best of their praises.

According to a recent study conducted by HotelGuru.ro, an online booking platform, as many as 68 % of the Romanian tourists said that they trust online booking platforms and that they use them for reading detailed information and reviews regarding accommodation facilities. [Oprea, 21.8.2014]

The study concludes that the Romanian tourists are interested in online booking opportunities and that they are willing to access multiple sites for more detailed information but that they are still reluctant to complete the booking process through an online booking portal as they do not want to provide bank details. Also, they find it more efficient to contact the accommodation facility or the intermediary by phone. Therefore, only 28 % of them choose to complete a reservation online, while 39 % prefer to book by phone. [Oprea, 21.8.2014]

Some of the most useful Romanian websites to share guests' impressions and experiences are AmFostAcolo.ro, ViaRomania.eu and Hoinari.ro. These are not complex websites but, on the contrary, they are rather basic and easy to use, though, somehow with an unattractive look compared to Booking.com or TripAdvisor. What is important about them is that they are mostly used by guests who do not speak English or they are used for accommodation facilities that are not present on international booking platforms, units which target the Romanian market. However, despite their obsolete designs and overcrowded interface (that can be overwhelming for the user), their main objective is achieved: that of sharing guests' impressions and experiences with potential new customers, thus, having a direct impact upon potential new reservations for the registered hotels or other accommodation facilities. Unfortunately, these are some of the sites where some accommodation units advertise themselves pretending to be hotels when they are boarding houses or villas, or pretending to be officially ranked, while, in fact, they function unauthorized and without any classification certificate.

Online presence and marketing are essential for the survival and welfare of tourism facilities. Thus, according to Daniel Truică, representative of Vola.ro (online reservations platform primarily focusing on flight tickets), "the only segment that will continue to grow fast is the segment of online booking for flights and hotels. But here we are already talking of a very competitive market, coagulated around a few players." In other words, investment opportunities in tourism could limit to the online environment, which has lower costs compared to the offline one, but where competition is fierce. [Dobreanu, 15.1.2013]

Delivering the brand through multiple channels does not refer only to various online platforms and websites but also to various physical devices such as smartphones and tablets, and not only. There is a strong connection between social networks, smartphones and tablets, which means that optimizing websites for these devices, as well as also, creating differentiated content and specialized applications for them, contribute to reaching new segments and, eventually, to attracting new customers.

The Digital IQ Index Study on Hotels [2012] reveals that differentiated content on site and mobile booking platforms drive traffic and high margin revenues. The research demonstrates a clear relationship between how hotel brands perform in the digital marketing media and shareholder value.

Moreover, David Scott [2011, p. 204] considers that making an enterprise's brand available on various devices has important positive effects on its sales; more exactly: "The ability to contact consumers at the precise moment they're near you and ready to buy exactly what you sell will transform how you market to them. And the use of mobile reaches all levels of society, not just those who choose mobile because phones are cheaper than computers."

A Deloitte experts [2014] point out: "Hotels must ensure their websites are mobile-friendly in order to maximize the benefits of mobile technology. When Marriott launched a version of its website built for smartphones, it reported sales in excess of $ 1.25 million through the site in the first 100 days." The same researchers [Deloitte, 2014] continue by stating that: "Additional mobile services, already implemented in some hotels, include interactive maps/GPS, reward programs for quick mobile bookers, confirmation texts and pre-arrival texts. These ideas could be stretched further to encourage greater loyalty and ensure that hotels are providing the best possible service for their guests."

Moreover, Cornell University released findings confirming that guest satisfaction has a direct impact on the financial performance of hotels [*Hospitality Net*, 19.2.2014]: "If guests have a bad hotel experience, they are going to tell everyone they know online and via social media. Consumers trust online reviews, and if enough travelers start posting comments about long lines, slow check in or rude staff, it is going to have a direct impact on the bottom-line and the hotel's online reputation. Hoteliers need options to modify the processes that may lead to reasons to complain and negatively affect guest satisfaction scores and ultimately customer loyalty and the bottom line."

New technological developments generate tech and marketing twists that can have an awful impact on hotel demand if hoteliers do not react properly. For example, "the sharing economy is thriving in the travel industry today, with apartment dwellers or home owners using a variety of distribution channels to rent out their unused or vacation units, respectively their spare bedrooms to travelers seeking alternatives to traditional hotel stays. Whether it is the Millennials with their different cultural tastes or just long-time road warriors with a need for destination authenticity or simply a cheap room, new vendors of alternative transient accommodation facilities have emerged to meet the demand: Airbnb, VRBO, HomeAway, FlipKey, Roomorama, CyberRentals.com and others." [Hotel News Now, 2.9.2014] Even though these options emerged as alternatives for hotel rooms, they attract customers who initially had a demand for hotels.

Even though they may not actually be perceived as a threat, because they address different segments, the concern is amplified with "Airbnb's market valuation of $ 10 billion, which is more than [that of] traditional hotel companies, like Hyatt. In addition, they recently hired industry veteran, Chip Conley, as Head of Global Hospitality. If that name sounds familiar, it's because Chip was a disruptor himself as one of the early introducers of the boutique-hotel concept." [Iwamoto, 4.9.2014]

2. Material and Methods

Taking into consideration that technology is rapidly evolving, it has been considered that the latest reports of three of the Big-Four and of other independent international organizations such as The World Economic Forum, together with specialized publications in various online journals can provide the most up-to-date information regarding the implications of technology and digital media in the hospitality industry, Romania included.

Moreover, while conducting a complex research, both online and offline, regarding all the hotels included in the *List of Licensed Tourist Establishments*, published half-yearly by the National Authority for Tourism (NAT) and of approximately 400 hotels not included in this list, each with or without license to operate, but currently open to tourists, an analysis of the online promoting situation of these hotels, promotion often non-existent or improperly performed was also carried out.

Two types of methods laid the foundation of the research methodology:

- secondary analysis, by treating various statistics, guides and brochures, specialized websites, by making use of comparisons, analogies and synthesis, and even by contacting hotels and travel agencies;
- induction and deduction, which are interrelated and have contributed significantly to the interpretation of the current state of the Romanian hotel industry, taking into consideration the situation presented by NAT through statistics and marketing campaigns, and different situation resulted from the research conducted.

3. Results and Discussions

The problems are not only linked to NAT. While conducting the research it occurred that the impact of the Internet upon hotel marketing seems to be ignored by most of the Romanian hoteliers. Currently, when 95.9 % of the Romanian tourists organize their holidays independently [NIS, *Annual Tourism Yearbooks 2010-2013*], and when most of Romania's foreign visitors come from the EU, and especially from Western European countries – the second online travel market in the world, after North America [European Travel Commission] most hotels have incomplete, broken or inadequate looking and advertised websites.

Most Frequent Mistakes

The way hotels are promoted in Romania is indeed an important issue because most hoteliers seem not to know how to do it properly, or, worse, not to care, especially when it comes to digital media. Some of the most common mistakes that were identified are described in the coming lines:

- under the "About us/About the hotel" section is the description of the area where the hotel is located and not the actual description of the facility and services the hotel offers. This situation was often encountered in the cases of 2 and 3-star hotels, probably because of the lack of marketing knowledge of the hoteliers or because those hotels do not have much to offer, operating without significant improvements;
- incomplete information on the website or "Lorem Ipsum" where descriptive texts should have been, as well as information not updated;
- non-functional websites, with errors or suspended accounts;
- unattractive websites for the potential clients;
- websites designed using Flash, which cannot be accessed on smartphones or tablets.

Another common error is the choice of inadequate advertising taglines, slogans and phrases, by using negative connotations or excessive superlatives; some examples are presented in the following lines:

- discrepancies between the advertising phrases and the appearance of the hotel (e.g. "the most attractive", "the most..." for an ordinary hotel with standard rooms);
- exaggerations of the titles given to rooms (e.g. "Luxurious Room" at a 2 or 3-star hotel);

- "In large hotels, tourists are just numbers on the doors. Here they are treated as friends.", 2* Selena Hotel in Mamaia [www.hotelselena.ro], while they should be seen as guests and treated *per se*;
- "3 stars, fully deserved!", 3* Yaky Hotel in Piteşti [www.yaky.ro]. The English translation grants an inappropriate sense to the phrase, meaning that the hotel has no chance to ever receive more than 3 stars!
- "...try once. And once again...", 3* Eden Hotel in Câmpulung Moldovenesc [www.hotel-eden.ro], again a rather pejorative meaning;
- "Cheaper than us is sleeping in the train station!", 3* Adabelle Hotel in Braşov [https://www.google.ro/search?q=hotel+adabelles+brasov&oq=hotel+adabelles+brasov&sourceid=chrome&ie=UTF-8].

The occurrence of these unpleasant situations is high among 2 and 3-star hotels. It was disappointing to find out that, since 2013 when the research was first conducted, the situation has not changed much. Therefore, hotels, due to lack of knowledge in the field, or, as already stated, perhaps because of the entrepreneurs' and/or managers' interest, contribute themselves to this dissatisfactory reality.

Another relevant finding that has emerged during the research is the promotion of accommodation facilities in the Danube Delta. Although the destination is of high importance for Romania's international tourism campaigns, the existing hotels in the area are not centralized on a Romanian strategically funded online booking platform or on various online international booking platforms but they are spread on various reservations websites (TravelRo.ro, InfoTurism.ro, Plaja.ro etc.). Therefore, hotels are quite difficult to be found. The official support of the Ministry of Tourism was the listing of several hotels and their description on an unattractive green background, each with a picture on Sulina-Tourism.eu that also had an English version. Fortunately, this website no longer exists. Of the 20 hotels in the Danube Delta floating hotels, included), only a number of 7 hotels are present on Booking.com.

A study conducted by Deloitte [2014] suggests that "social media can work in favor of midscale and budget hotels, where initial consumer expectations may be lower. Hotels that manage to exceed these expectations can sometimes surpass upscale hotels in the rankings, where initial expectations are likely to be higher". Thus, with a little bit more knowledge and skills in digital marketing, with willingness and with some financial funds, budget hotels could do wonders! In the meantime, another feature of the Millennials is the preference for "low-cost luxury" which means that they do not have the income to drop $ 500 per night on a hotel room but they still want to feel on top of the world. Their definition of luxury has changed as well. For them, luxury equates to a feeling of ease and low-stress, such as: a taxi ride from the airport instead of using public transportation, they do not want to be bothered by housekeeping at 8 a.m. or inconvenient check-in times [Lapelosa, 16.7.2014].

It is assumed that for a hotel group the importance of a consistent image of all the hotels in its portfolio is even more difficult to achieve than for independent hotels. But it is a must! This is why the analysis also turned towards some Romanian hotel groups and chains, and on their presence in the digital media. The results are shown in Table Nº 1.

Table Nº 1. The Romanian Hotel Groups in the Digital Media

Name of the hotel group	Website	Responsive website	f	Booking.com	tripadvisor
Ana Hotels	✓	✓	✓	✓	✓
Aro Palace	✓	-	✓	✓	✓
Călimăneşti-Căciulata	✓	-	✓	-	✓
Continental Hotels	✓	-	✓	✓	✓
TBRCM S.A.	✓	-	✓	-	-
T.H.R. Marea Neagră	✓	-	✓	✓	✓
Turism Felix	✓	✓	✓	✓	✓
SIND România S.R.L.	✓	-	✓	✓	-
Unita Turism Holding S.A.	✓	-	✓	✓	✓

Source: Authors' analyses based on each of the 9 Romanian hotel groups' websites. A minimum of 1 hotel present on Facebook, Booking.com and TripAdvisor was considered for each hotel group.

The results revealed that even though each hotel group has its own website, only 2 of the 9 hotel groups have a responsive website, meaning that the website adapts to the display of the device from which it is accessed (smartphone, tablet etc.). Hence, only Ana Hotels and Turism Felix are relatively aware of the importance of being present and accessible on various devices. All of the hotel groups are present with at least one hotel or with the hotel group's page on Facebook. Only 2 hotel groups do not have any hotel bookable on Booking.com and only 2 hotel groups are not present with any hotel on TripAdvisor.

Unfortunately, there is no hotel group with a mobile device application. One should not forget the lessons learned from IHG. In this respect [*InterContinental Hotels Group*], hotel brands should use technology for building trust and for providing guests more self-reliance but also for ensuring that guests are supported when something goes wrong while away from home. Thus hotel brands must offer a service that is enhanced by technology, not replaced by it, even when the service itself is delivered "invisibly" by the means of technology rather than provided by the staff [*InterContinental Hotels Group*].

However, some of the few Romanian hotels that have a truly well-organized website, attractive and providing relevant and useful information, are present only on the fifth, sixth place at the bottom of a simple search on Google, are found even on the second or third page, or cannot be found unless the exact name of the website is written. Before and continuously after launching a hotel's website, methods to attract potential customers have to be considered and used. Such methods are of critical importance and they are often free, simple but ignored or little understood by hoteliers. Some examples in this respect are:

- optimizing the website rank in the search engine results; or
- search engine promotion through the analysis of traffic sources and how they change and evolve over time etc.

Such methods often require time but not necessarily (important) financial resources, Google providing free of charge the necessary support for most of them. Also, one does not need advanced IT knowledge for these optimization processes, and guides on how to apply them can be (easily) found on Google.

Signs of Improvement

Hotels and tourist accommodation establishments that have identified the benefits of international online advertising and have acted accordingly, have been awarded TripAdvisor's Traveler's Choice annual distinction [*TripAdvisor Travelers' Choice*] as a result. While in 2013 the first 5 places were occupied by 3 hotels belonging to international chains and by only 2 independent hotels, in 2014 [*TripAdvisor Travelers' Choice 2014*] a number of 4 independent hotels were awarded and only 1 hotel belonging to an international chain.

Moreover, there was discovered a high concentration of internationally recognized distinctions in areas frequently visited by foreign tourists such as Sighişoara and Sibiu, where in 2013 there were accommodation facilities that still kept in plain view the awards received in 2011. Therefore, the race for receiving such awards from TripAdvisor and from other similar international organizations is either a response to customers' demands or, in some cases, a proactive action to attract them, both cases being the result of accommodation facilities gaining an increased number of guests after displaying such awards.

Other international awards have begun to be granted to Romanian hotels by the World Travel Awards since 2012. This organization aims at recognizing, rewarding and celebrating excellence across all sectors of travel and tourism worldwide [*World Travel Awards*].

Hotel Tourism & Leisure Investment Conference, a Romanian organization helps managers to identify new business opportunities and to find out which are the most important changes when it comes to the hotel, tourism and hospitality industries. Moreover, the conference also hosts a gala for rewarding the best hotels in the country on various categories: luxury, budget, leisure, business and spa hotels [*Hotel Tourism & Leisure Investment Conference*].

Hotels and other hospitality facilities that received awards or were nominated are located in different cities and destinations throughout the country, not only in Bucharest, meaning that there is a positive trend of hotel services' qualitative improvements and increases, throughout the entire country.

Another way to encourage the use of digital marketing is to educate hoteliers in this respect; this must not necessarily happen in specialized schools, which are still insignificant in terms of number in Romania but it can be supported by the private sector, represented by hospitality industry experts (through conferences, workshops presentations etc). However, the first conference dedicated to this topic was held at the beginning of 2013 at the Crowne Plaza Bucharest Hotel. One of the covered subjects was the online hotel distribution. The eTravel® Conference focused on the online commerce in the local tourism industry. Promoting and selling tourism products on the internet was the main discussion point of the event. The objective of the conference was to propose strategies for improving online marketing, trade sales and profits with minimal costs and efforts. The conference provided an opportunity to meet experts in the field, to analyze the differences between traditional and online advertising and to determine the means by which hoteliers can identify and understand how to use search engine technology as a marketing tool [*eTravel® Conference 2013*].

At the same time, some Romanian hotels gradually begin to turn towards firms that specialize in online marketing such as Buuteeq.com. The Digital Marketing System (DMS) of Buuteeq.com combines technology with smart marketing to help hotels increase occupancy rates and to reduce their distribution costs, by converting as many direct bookings in online reservations. In addition, it offers support for mobile devices and a Facebook application. There are also some hotels which address to specialized advertising agencies for digital marketing, thus, outsourcing such activities and tasks. However, while most of the advertising agencies have long before these trends started to offer such services, it is the Romanian hotels are who adopt them (too) slowly.

Another important step has been taken in May 2014, when the OVI Travel Travel Agency released vivolis.ro, the first online platform in Romania to go fully mobile for travel bookings – flights, hotels and city break packages – by smartphone, tablet, laptop or desktop, including WhatsApp and Viber applications. Vivolis.ro is linked to RED Bookings, a platform for bookings of tour operators and travel agencies [Oprea, 8.5.2014].

Therefore, some of the solutions for improving and enhancing the online presence of the Romanian hotels can be identified among the following ones:

- educating hoteliers through conferences, trainings and workshops;
- raising awareness of the importance of well-designed websites by promoting the benefits and potential results;
- hoteliers who want to renew their hotels' websites should listen carefully to what web designers and SEO specialists recommend;
- improving the sites of hotels, both in terms of quality and of the accessibility of (potential) customers by the means of search engines; and
- optimizing hotel websites for smartphones and tablets.

More and more Romanian hotels begin to take action as there is much need for improvement. In this respect, a triggering factor may be associated to the much needed genuine international competition on the local market. A higher penetration of the international groups and chains on the Romanian market might wake up the Romanian hotel owners and/or managers. Moreover, the poor online presence of the local hotel brands may also be attributed to the investors' profiles. Obviously, as most of the Romanian hospitality entrepreneurs [Mc Donough, Duncan, 2001; Pop, Cornelia; Coroş, Monica Maria, 2011; Pop, Cornelia; Yolal, Medet; Coroş, Monica Maria, 2011] seem to be only interested in gaining rapid returns on their investments, or to own vanity or trophy properties, respectively to make real estate investments, they are not interested in investing anything for the sake of improving a below-average qualitative level and, nevertheless, in a better online and digital presence of their facilities.

4. Conclusions

The changes that take place internationally in what concerns digital marketing, consist not only in modern online marketing campaigns, peer reviews, social media and means to meet customer demand through the nowadays common devices (smartphone, tablet, laptop, etc.) but also in the online booking platforms, which have emerged as alternatives for hotel rooms and which diminish customers' demand for hotels, becoming a genuine threat for hoteliers if not dealt with properly.

Online marketing of Romanian hotels is an urgent issue that needs to be addressed and improved. Most hoteliers seem not know and/or not to care how to adequately promote their hotel, sometimes making their situation even worse. Moreover, the low and medium qualitative levels provided by most of the hotels contribute to the quite negative image of the Romanian hotel industry, and to its poor performances.

The most important findings of the present research revealed that:

- most of the Romanian hoteliers have not yet acknowledged the changes that take place related to digital marketing;
- the importance of the digital marketing seems to be little understood by the Romanian hoteliers;
- discrepancies occur between what hotels promote about themselves and their real situation reviewed on specialized websites and platforms, respectively on discussion forums;
- there are websites with information that is not updated or which promote hotels that do not exist anymore;
- most hotels that do not have their own website are 1, 2 and 3-star hotels; despite this, some of them promote themselves on international reservation websites and platforms (e.g. Booking.com, TripAdvisor etc.);
- there are properties that confusingly promote themselves as tourist pension-hotel or hotel-tourist pension;
- few hotel websites are responsive, hoteliers are not aware that by being accessible on different devices such as smartphones and tablets they can better reach their target audiences. In what concerns dedicated mobile applications, these are only used by some international hotel chains present in the country;
- it seems that that Romanian hotel owners and/or managers do not yet acknowledge the business environmental changes brought by Airbnb.

The large majority of the Romanian hoteliers are passive to the changes registered by digital marketing, attitude which will have disastrous consequences upon the demand for their services. The drop in hotel demand in Romania in the last years may have been impacted by the hoteliers not adapting to the recent changes: since 2000 demand has dropped from 42.6 % to 29.9 % in 2010, with a slight increase in the last few years to 31.7 % in 2013, at the national level. [*** Tempo Online]

The impact of the continuously evolving digital marketing begins to be sensed by some of the Romanian hoteliers. Large hotels have the financial funds to invest in adopting solutions for the new digital marketing trends but budget hotels struggle to face the changes with limited budget and personnel or just watch them pass away. On the other hand, Romanian hoteliers begin to slowly realize and learn the importance of attending conferences and workshops and the demand for such events is continuously growing. Also, they realize the importance and benefits of international awards and nominations for their properties.

In order to be successful when addressing customers belonging to Generation Y, hoteliers must create advertisements that bear attributes such as [Cambal; Zibrinova, 2011]:

- to provide practical and clear information;
- to have a humorous undertone;
- to have a focused design;
- to be well prepared;
- not to underestimate details;
- to highlight the service(s);
- to focus on the Generation Y lifestyle; and
- to create a trademark.

To sum up, most Romanian hoteliers have not yet acknowledged the changes that are taking place in the digital marketing area, and which, obviously, affect the worldwide travel industry. Assuming that they know what is best for their hotels, wrapping themselves in a "bubble" and denying the changes, they are focusing more on the external environment. Thus, they frequently ask themselves the wrong question, like: "Why is customer demand diminishing?" instead of: "What is there to be changed in order to attract more customers?". Of course, being proactive instead of reactive leads to adopting solutions that are closer to their businesses' reality. Moreover, the internal environment of the organization is easier to control and to change. The first question makes them feel victims, with no power to control the outcome, atoning for their lack of action. However, digital marketing and its devices are here to stay in the long term, making the situation even more difficult for those denying the current reality.

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Appendix Nº 1. Technological Readiness of Romania Compared to Countries in South-Eastern Europe

Availability of Latest Technologies		Firm-level Technology Sbsorption		Individuals Using Internet		Internet Bandwidth, kb/s per User	
Austria	24	Austria	17	Austria	21	**Romania**	**16**
Slovenia	39	Slovenia	62	Slovakia	22	Austria	17
Hungary	57	Slovakia	72	Hungary	34	Slovenia	21
Croatia	59	Hungary	73	Slovenia	36	Bulgaria	22
Greece	67	Croatia	76	Bosnia & Herzegovina	40	Moldova	23
Italy	69	Greece	88	Macedonia & FYR	43	Italy	27
Slovakia	70	Montenegro	89	Croatia	44	Serbia	29
Bosnia & Herzegovina	76	Bosnia & Herzegovina	93	Italy	51	Montenegr o	36
Macedonia, FYR	80	**Romania**	**104**	Montenegro	52	Greece	38
Montenegro	83	Albania	108	Greece	53	Macedonia, FYR	55
Bulgaria	99	Italy	112	Bulgaria	55	Croatia	58
Romania	**107**	Bulgaria	113	Albania	58	Bosnia and Herzegovin a	64
Moldova	116	Macedonia, FYR	121	**Romania**	**64**	Albania	75
Serbia	118	Moldova	124	Serbia	67	Hungary	81
Albania	119	Serbia	137	Moldova	77	Slovakia	91

Sources: *South-East Europe Transnational Cooperation Program* and World Economic Forum, *Global Competitiveness Report 2013-2014*.

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THE INTERNATIONALIZATION PROCESS OF A SME DURING A GENERAL FINANCIAL CRISIS: A CASE STUDY OF A GREEK COMPANY

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ABSTRACT. In the mid of 2008, an unprecedented and, for most of the world, unpredicted financial dept crisis was unfolded, leading to a dramatic increase of public debt in many advanced economies. One of the major European countries that were hit by this dept crisis was Greece due to a combination of structural weaknesses that the Greek economy had been facing for decades. One of the main industries mostly affected was the construction industry. The Greek construction industry has shown a considerable decline since 2008, according to data provided by the Hellenic Statistic Authority. Moreover, many small and medium sized companies (SMEs) had to alter their strategic planning in order to adapt to the new conditions.

In order to investigate in fact the corporate strategies that have been adopted by some small and medium sized companies to overcome the crisis and become competitive and profitable again, an empirical research in March 2014 was carried out. As a case study, the enterprise named "Roka Refractory" has been chosen, which has been found in a difficult and crucial position because of the stagnation of the construction sector and the reduction of purchasing power of the consumers in the internal market. However, it has managed to overcome after taking the decision to enter in foreign markets. The enterprise "Roka Refractory" was founded in 1989, in Thessaloniki, Greece, aiming at the massive production of specialized refractory ceramic products (fire-bricks), used on fireplaces, kilns, barbecues, furnishes etc. The company constitutes the only manufacturing unit of its kind in Greece, covering up to 60% of the domestic market, meeting the exigencies of international competition. However, as the vast majority of the enterprises of the building materials business sector have been seriously affected over the last five years from the general financial crisis that has beset the Greek economy, Roka Refractory could not avoid being affected as well.

In an attempt to overcome this crisis, the company decided to take brave decisions. During the last three years it has changed its corporate strategy, following a corporate growth strategy for the internal (Greek) market in

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combination with an internationalization strategy for the external markets, making use of innovative marketing strategies. The company has aimed to its entrance into the markets of neighboring countries (especially in the Balkan Peninsula) as well as the entrance into the Arabic countries surrounding the Mediterranean Sea.

This paper examines, in the beginning, the corporate profile and the historical evolution of the company. Next it is presented a sales analysis and the internal and external environment of the enterprise. Also, the internationalization process that has been followed by the company is described with details. Finally, an attempt to evaluate the adopted internationalization strategy was made in order to assess the results that have been brought to the company after the implementation of this strategy.

Keywords: SMEs, Refractory, Internationalization strategy, financial crisis, SWOT Analysis, PEST Analysis, Uppsala Internationalization Model.

JEL classification: M16; **L610**

1. Introduction

In 2008, an unpredicted financial dept crisis was unfolded, leading to a dramatic increase of public debt in many advanced economies. Greece and other periphery EMU countries (Ireland, Portugal and Cyprus) are severely hit by the sovereign debt “storm” (De Grauwe, 2010). Greece was always felt like a problematic member of EU with lack of structural reforms and sluggish economic growth (Lacina and Vavrina, 2012).

The impact of financial and economic crisis influencing economic development in EU countries is analyzed mainly at macroeconomic level. However the effects of the crisis are visible also at microeconomic level. The economic results of businesses are significantly influenced by the negative macroeconomic development at both national and international level (Lacina and Vavrina, 2012).

This global economic crisis has not only been severe for large enterprises, but also for small and medium-sized enterprises (SMEs), which have become an increasingly important component of economic development (Paul et al., 2007). Recent economic crisis did significantly influenced businesses both from demand and supply side. Combination of the economic downturn and fiscal austerity are negatively influencing aggregate demand. On the other hand the banking crisis led to tougher credit conditions. Economic surveys indicating that SMEs are more vulnerable to both shocks tan the large companies (Lacina and Vavrina, 2012).

According to OECD (2009) SMEs and entrepreneurs play a significant role in all economies and are the key generators of employment and income, and drivers of innovation and growth. In the OECD area, SMEs employ more than half of the labour force in the private sector. In the European Union, they account for over 99% of all enterprises. The current economic crisis has affected businesses in different ways: for 58% it has been through insufficient working capital, for 55% by way of insufficient sales.

In this framework it is essential to further investigate if there are some firm-specific strategic factors that enable SMEs to better survive such challenging changes in the surrounding environment. The response of the surviving SMEs to the double pressure of falling sales and extended payment delays in a general context of bleak medium-terms perspectives is – in theory - three fold: (a) cost-cutting to restore profitability and adjustment of production to lower demand levels, measures that materialize mainly in a reduced wage bill; (b) search for additional sources of liquidity (extending own payment delays, reducing or suppressing dividends – if any); (c) postponing of investment and expansion plans, when possible (including M&A activity for the small subset of high- growth SMEs). In the case of entrepreneurship, this could simply mean the postponement or even the cancellation of new business ventures (OECD, 2009).

However, as it has been mentioned from Siakas et al. (2014), the economic crisis can be perceived as forced “opportunity” for organization in many functional areas of the business. It converts into a cause of reorganization of business plans and helps the company to adopt more formal management procedures for decision making. Specifically for a small number of SMEs, i.e. those that identify the change in the market and react promptly, this period may prove favorable. In times of crisis, some SMEs, unlike the big companies, have the advantage of greater flexibility, being able to implement new services and launch new products more easily. Not bound by strategies devised at higher echelons and by the need to get approvals, SMEs can make decisions more easily and thus become much more efficient based on prompt action and solutions adjusted to market circumstances (Hodorogel, 2009). Finally, it can be noted that the new business environment, after this financial crisis, will be definitely quite different and will bring new balances in product and services markets.

One of the most severely hit by the economic crisis country, was without any doubt, Greece, having reached in the verge of bankruptcy, and the Eurozone exit. As far as its domestic market is concerned, the implementation of strict austerity programmes, from 2010 onwards, has caused substantial decrease in demand for goods and services pushing the Greek economy to a deep recession. The adverse effects of the financial crisis are visible particularly in the case of SMEs in sectors like commerce, constructions and real estate (Hodorogel, 2009).

Since there is a feedback effect from the macroeconomy to the property sector (Karousos and Vlamis, 2008) individual sectors such as construction, real estate services etc. were negatively affected. The construction industry in particular was considered to be one of the most important sectors of the Greek economy (before the fiscal crisis) and this was not only because of its size (Kalfamanoli and Vlamis, 2010). It significantly affected the country's economic growth and because of that, its importance for the growth prospects of the Greek economy has never been questioned. More specifically, its contribution to the GDP since the year 2000 ranges between 6% and 8% (in both current and constant prices), while it employs more than 7% of the total country's labour force. Also, the construction sector affects heavily, although indirectly, other sectors of the Greek economy such as mining, building material, electrical equipment, etc. (Benos, et al., 2011).

2. Research Methodology

As it has been mentioned by Yin (2014), the case study methodology can be considered as a valid way of exploring existing theory and as an exploratory way to provide an integral vision and a general understanding of a phenomenon. For this reason, the current condition of a medium sized Greek company has been studied and its efforts to make an entry in the international markets have also been described. Following a literature review, two in-depth interviews with executive managers of the company "Roka Refractory" were also conducted. With the empirical data that were selected from these interviews, it was possible to relate them with some theoretical ideas advanced by the literature. However, it has to be mentioned that the followed methodology was not applied with the purpose of setting its results at a general extend, due to the specificity of context, but to set a good example concerning the strategy that can be followed by a SME in order to overcome the difficult conditions when the country of origin faces a difficult financial situation, resulting in the decrease of the company's product sales.

3. Corporate Profile

Roka Refractories was founded in 1989, in Lagadas Thessaloniki, aiming at the massive production of specialized refractory ceramic products (fire-bricks), used on fireplaces, kilns, barbecues, furnishes etc.

The company constitutes the only manufacturing unit of its kind in Greece, covering up to 60% of the domestic market, meeting the exigencies of international competition. Also, their products are aligned with the international specifications and are certified by the Hellenic Center of Research in Refractory Materials (CERECO), the Aristotle University of Thessaloniki as well as the National Technological Institute of Chemical Processes.

Roka Refractories possesses its own quarries, securing, hence, incessant flow of raw materials and high constancy in the manufacturing process. The company's installations cover a 22000 m^2 region, where the whole production process takes place. Right now they manufacture top-quality firebricks in seven different colors (white, grey, brown, granite, red, yellow and black) in all speculated dimensions, refractory plates, fireclay and chammote in different granulometric scales, as well as refractory mortar of the highest standards.

Except for refractory solutions, Roka Refractories uses raw materials from its quarries and its R&D capacity to manufacture pioneer synthetic cement-based products -namely insulating prominent blocks for external masonry and facing decorative bricks- in diverse dimensions and colors, which satisfy the modern architectural aspect about constructions. [i]

3.1 History

1989: Foundation of the company under the trade name "Macedonian Terracota". The company's first privately owned manufacturing installations lay on a 6212, 4 m^2 ground and a 2160 m^2 plant with a production capacity of 4t daily.

1993: Procurement of the company's first quarries.

1994: Procurement of the company's second quarries.

1994: New amplification of the production capacity which reached 100t daily.

1996: Purchase of new manufacturing installations on a 16000 m^2 ground and a 3500 m^2 plant.

1997: Establishment of VI.OR Industrial Minerals Ltd., a subsidiary company destined for the elaboration of Roka Refractory's raw materials and the trade of the abstracted components such as quartz.

1998: Buy out of Flouda Ltd., Greece's leading manufacturer of decorative tiles and concrete bricks. Flouda's manufacturing capacity reached 3500 m^2/day.

2001: Last acquisition of a vicinal plat which extended the company's yard by 5000 m^2 and on which new warehouses were constructed.

2004: Two more quarries were added to the company's propriety.

2006: Establishment of a commercial branch on a 2500 m^2 area and a 1800 m^2 building in Aspropyrgos, Athens.

2007: Procurement of new 3000 m^2 quarries. Its raw materials have been indispensable for the production of our brown series of fire bricks.

2010: Amalgamation of VI.OR Industrial Minerals and of Flouda Ltd. All the company's product would be commercialized under the Roka Refractories label. [ii]

3.2 *Sales Analysis*

Before the year 2010, when the Greek financial crisis had not reached its peak, Roka Refractory used to sell its products exclusively in the domestic market. Only in some rare occasions, there were sporadic exports, and only after customer's demand. It should also be mentioned that the company didn't make any efforts to increase its brand awareness neither on the domestic market or the foreign markets.

However, during 2010, the company saw a sharp decrease of sales (about -65%) in the domestic market. This fact led the company's chairman to take the decision to make the first steps in searching new opportunities for product sales in neighbouring countries.

Three and a half years after its first attempts to increase the sales in the foreign markets, Roka Refractory has currently managed to export its products to 16 countries, having also increased its brand awareness, and is also seeking opportunities to enter even more new markets. The following chart (Figure 1) presents the percentage of sales per country, for the first quarter of 2014 (Jan-Mar). The first four countries with product sales are: Romania 26%, Morocco 18%, Italy 10% and Tunisia 10%. After comparing these results with the same period of 2013, it has been discovered that the sales in 2014 have been increased for 183,42%.

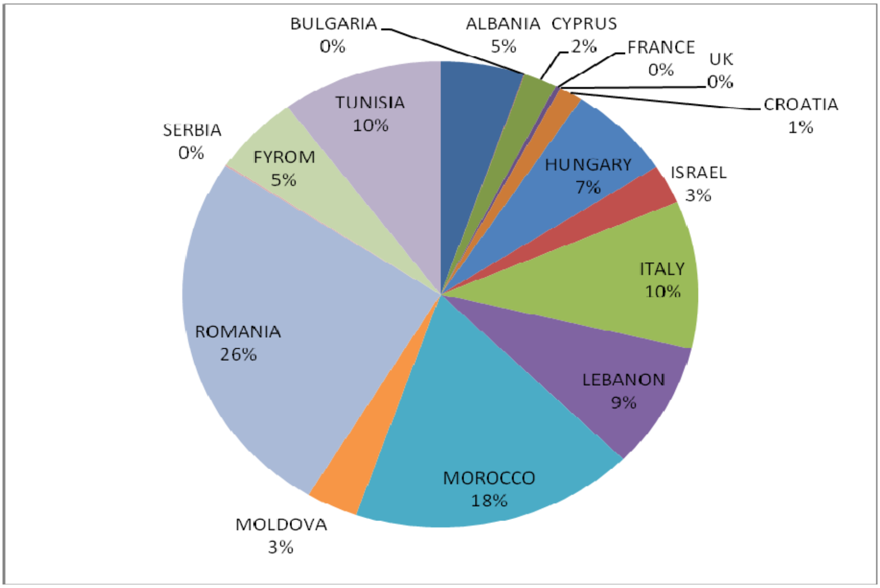

Figure 1: Roka Refractory sales per country, 1st quarter 2014.

It should also be noted that from the company's total production, the vast majority concerns the firebricks production (about 70%) and then follows the fire plates (about 20%) and finally the decorative bricks with about 10% of total production.

3.3 Internal and External Environment

Good performances within a company are the results of correct interaction of business management with its environment. This environment can be of either an internal or external nature (Houben et al., 1999). Next, some key elements that affect the internal and external environment of Roka Refractory will be briefly presented.

Firstly, a summarized SWOT Analysis for the company will be presented. In many cases SWOT analysis is a strategic planning method and can be used in conjunction with other tools for audit and analysis of an involved venture (Houben et al., 1999). SWOT analysis has been applied in many fields and has undergone numerous researches (Jackson et al., 2003), (Ghazinoory et al., 2003) (Lee, 2010). It has been widely used in all areas of business management and strategic management aspects (Zavadskas et al., 2010). For this reason, the SWOT Analysis will be applied for our case, Roka Refractory, in order to gain more information about the company's current state and the possible future conditions. Strengths and weaknesses are internal factors and opportunities and threats external factors that can create or destroy value.

Strengths

- Stable manufacturing procedure.
- Certified quality with the acquisition of quality certificates (TUV, ISO etc).
- High capacity that guarantees incessant flow of products and high constancy in the manufacturing process.
- Well trained sales team-know how- of eliminating the barriers of newcomers.
- Leading position in domestic (Greek) market.

Weaknesses

- New comer in the international markets.
- Distance from Central European markets.
- No Contact with the biggest wholesalers.
- Sharp decrease of sales in the domestic market due to the financial crisis the last five years.

Opportunities

- The new trend in foreign markets is the Black firebrick. Roka Refractory is the only company that can provide a total black firebrick.
- The major competitors are not emphasizing on communication and marketing strategies.
- There is no other competitor in the Greek market.
- Arabic countries have major building and constructing growth the last five years.
- There is great interest from building material resellers for signing strategic partnerships and signing contracts of exclusive territory.

Threats

- The existence of cast iron as substitute product (easy to handle).
- The existence of vermiculite (easy to cut and easy to handle).
- Consumers' preference for domestic products. No acceptance of new comer by the market.
- The financial crisis to get worse again in the following years, especially in Southern Europe.
- Massive invasion of cheaper Chinese competitors in European markets.

Roka Refractory has invested a lot in the creation and the operation of a highly specialized marketing department which is observing the external environment in order to seek for opportunities in foreign countries and act immediately. For this reason, a summarized PEST Analysis (Political, Economical, Social, and Technological) will be presented, that will contain some external factors that may affect the internationalization process of the company.

Political: During this period, many political factors are affecting the company's long term strategy for entering the markets of Moldova and mostly Ukraine. Another political factor that has had a negative result is the fact that during the last three years many markets, especially in Central and Western Europe have remained suspicious in trusting a Greek company, as they consider them unreliable partners and literally depleted. Finally, a positive political factor is the fact that after 2012, the political situation in Libya, which is situated close to Greece, has opened, after political changes that happened in this country.

Economical: In Southern Europe, because of the crisis, the demand of firebricks has slightly been decreased as they have been replaced by cheaper substitutes, such as vermiculite. However this situation from the end of 2013 started to stabilize. In Arabic countries, on the contrary, the economic growth results in increase of use of expensive products as building materials.

Social: In southern countries, especially countries around the Mediterranean Sea, the demand of firebricks used for external barbecues has increased. This is happening because of the warmer climate that prevails in these countries and more social gatherings happen in external areas, especially during the summer months. On the other side, in northern countries (Central and Western Europe) firebricks are mostly used for internal fireplaces. Another social factor, is that firebricks tends to be used in traditional external ovens, especially in southern countries, as they are used in making homemade bread or pizza (in Italy), because this kind of food is considered as an integral part of their nutrition habit.

Technological: The most important technological factor is that the last years, there has been an optimization in production line with the ability to use better machines that are fully automated.

4. Internationalization process

Three years ago, the company faced a big dilemma and had to take some very serious decisions in order to decide the next steps that had to be followed or even to decide the fate of its own existence. Due to the economical and financial crisis that has affected many sectors of Greek economy and as a result most of the county's SMEs, Roka Refractory had to take the decision whether to focus on a downsizing strategy in order to survive or to focus on a growth strategy aiming at the international markets. The company realized that if they desired to survive in the international markets, they had to invest in the establishment of economies of scale and concurrently to respond in the more and more sophisticated customer demands in the domestic market. However, one of the main company's drawback was the higher production cost comparing with the main international competitors. For this reason, this problem had been set in top priority and at the same time they had focused on the creation of even more innovative and differentiated products that the customers would be more willing to pay in a little higher price than the competitors' price because of their superior quality. The low level in extraversion due to the small company's size had to be changed. So, in order to promote the sales in the international markets, the company invested in the recruitment of experienced sale executives that had great experience in the building materials sector and with proven knowledge of usage of the marketing tools.

As Vásquez and Doloriert (2011) state, the main drivers for the internationalization process are the constraints related to the internal market (the competition level, market growth and the saturation level) and the opportunities related with the external environment: demand, attractiveness and knowledge of the potential markets. In Roka Refractory case, the internationalization process begun right after the moment that the decision was taken and it was quite obvious that they seemed to follow the "Uppsala Internationalization Model" approach. The Uppsala Internationalization Model (Johanson & Vahlne, 1977, 1990, 2006) supports that the "enterprise gradually increases its international involvement" (Johanson & Vahlne, 1990, p. 11). The entering of new markets by the firm is usually disturbed by the psychic distance, which is the sum of differences in languages, cultures, political systems, etc., creating more gaps between the firm and the markets than physical distance (Johanson & Wiedersheim-Paul, 1975). The company starts its internationalization from those markets perceived as psychically near. As the experience abroad increases, the company acquires new knowledge and can then gradually gain stronger commitment to actual markets and eventually approach new markets characterized by greater psychic distance. According to this view, it is fundamental to distinguish between objective knowledge, which can be taught, and experiential knowledge, which can only be acquired through personal experience: this second category of knowledge is more relevant in order to reduce psychic distance (Johanson & Vahlne, 1990). However some criticisms of this model have also emerged (Chetty, 1999) as it has been criticized as deterministic (Reid, 1981) and, if firms were to develop in accordance with the model, individuals would then have no strategic choices (Andersson, 2000).

The Uppsala model was updated by the authors (Johanson and Vahlne, 2009) to incorporate the effect of networks on the internationalization process, acknowledging that learning processes of companies, and their commitments, are as much linked to the network of relationships as to national institutional aspects. Also, Tykesson and Alserud (2011) found evidence that the Uppsala Model is applicable to SMEs and argued that the network effects on the updated version of the Uppsala Model are more significant that the psychic distance factor, which plays a huge role in uncertainty, but that it can be overcome if company is part of a strong network.

The conceptual framework that was described by the Uppsala Model seems to be appropriate with the aspirations and the capabilities of Roka Refractory, especially as they have chosen to engage step-by-step with international markets, starting with neighbouring countries in South East Europe, Middle East and North Africa. The culture of every country is a very important factor that was taken into serious account in terms of defining the trading and commercial approach that was followed by Roka Refractory. In case of Roka Refractory started with direct exporting in some neighbouring countries, such as

Cyprus and Albania. After that, Roka decided to search for customers in order to apply contract manufactory signing and in some cases contracts of exclusive territory and contracts of strategic partnership, some of these areas are: Romania, Hungary, Lebanon and Morocco and Serbia. Finally, the exporting method through export intermediaries was also occasionally used. This method was applied in the case of Libya. There are interesting and optimistic thoughts by the company's executives, that in about three years from now they will be able to proceed in some acquisitions of some smaller similar companies especially in the area of the Balkans peninsula in order to transfer a part of the production in the neighbouring countries. However, this issue appears to be only an optimistic speculation at present.

4.1 Evaluation of the strategy

It is very difficult for anyone to prove which corporate strategy is the most suitable for a corporation, however it can be evaluated in order to find if it had some critical flaws (Papadakis, 2012). Richard Rumelt (1980) has proposed four criteria that can be used for a strategy evaluation. The four criteria are: a) consistency, b) consonance c) advantage d) feasibility. These criteria have also been applied in Roka Refractory's internationalization strategy in order to make an evaluation of its strategy.

a) *Consistency:* A serious internal problem has appeared in the early stages of the new corporate strategy appliance, as there were some employees that didn't look at the innovations that their superiors tried to bring into the production process in a positive way.
b) *Consonance:* The company's chairman made crystal clear to its executives and its employees the crucial financial condition of the company, so they had to respond and adapt their actions to the changing environment that has been established.
c) *Advantage:* The company tries to take advantage of their products superior quality and the quality of the raw materials that has in occupation.
d) *Feasibility:* This criterion is interwoven with how easily the desired strategy can be applied by the company. In our case, the decision to implement the internationalization process lurked great risk because the company merely had adequate financial resources for this. Also, the possibility to access the bank financing was not available due to the severe economic crisis that prevailed in Greek economy during that period. As a result, when it was needed, the company made internal financing especially in the early stages of the internationalization process.

5. Conclusions

The Roka Refractories case provides an interesting insight into the reactions of a SME during a general financial crisis. It also illustrates that sometimes the SMEs have to reorganize and change their behavior towards the difficulties that may appear with trying thinking globally and not only locally. As it has been argued by Ruzzier et al. (2006), with the global integration of economic environments and different factors driving globalization and internationalization of companies with SMEs becoming the pillars of economic growth and change, SME internationalization research will remain one of the most important areas.

Obviously, this paper is burdened with a number of limitations. This study does not aim to generalize its results, but with the selected case study has been used in order to provide a good example concerning the strategy that can be followed by a SME in order to overcome the difficult conditions when the country of origin faces a difficult financial situation, resulting in the decrease of the company's sales. This study may generate some possibilities for further research. It would be interesting to investigate the internationalization process of SMEs in different industries and countries separately in a more general extend. Moreover, as the financial crisis seems to be overcomed in the following years, all these studies will be a valuable asset for the future generations.

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