Enhancing Financial and Economic Yield in Tourism:

Business Interviews Report

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Yield Report 8A

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Executive Summary

This Report is part of the Research Programme 'Enhancing Financial and Economic Yield in Tourism'. The Research Programme is a collaborative venture with funding from the Ministry of Tourism and the Tourism Industry Association of New Zealand (TIANZ), with the research being undertaken by The Tourism Recreation Research and Education Centre (TRREC) at Lincoln University.

The Report presents the findings of in-depth interviews with small and medium tourism businesses carried out in Rotorua and Christchurch during mid 2006. For the purposes of this project, businesses with up to 50 staff were targeted. The objectives of this project were:

1. To better understand the business practices of small and medium tourism enterprises (SMTEs) in New Zealand.
2. To explore whether linkages can be made between business practices and financial yield.
3. To identify the business support needs and wants of SMTEs.

Owners and managers from sixty five tourism businesses were interviewed on a wide range of business practices, and financial data were collated so that each business's Financial Yield could be calculated.

The business operators were found to have considerable business management experience with 68 percent of operators having run more than one business and a similar proportion (71%) having more than ten years business management experience. Nearly half (48%) of the operators considered their business was in a growth phase of the business lifecycle. All but 12 businesses had employees.

Operators were motivated by both personal and business goals, and it was found that over time, there was a tendency for operators to develop more business related motivations. The combination of personal and business goals was reflected in the way operators assess their business success, the most common indicator of which was customer satisfaction. Profit and personal satisfaction also ranked highly. Despite a wide range of Financial Yield results most operators indicated the last twelve months had been 'good' or 'very good'.

Employee practices covered a wide range of activities but practices such as skill needs analysis, job descriptions and the job interview were mentioned only rarely. On the whole, although with some exceptions, employee practices tend to be informal and iterative; operators use a mix of common sense, experience and trial and error before a wisdom about what works best for their business develops. This confirms what is known anecdotally about SMEs.

Marketing related actions dominated the activities that operators thought were making the greatest contribution to business success. Marketing activities were also a common strategy to build on business strengths.

Market research and marketing planning were two aspects of the marketing function that were rarely mentioned by operators, suggesting missed opportunities in terms of understanding

what is occurring in the external environment, and what needs to occur within the business so as to remain competitive and responsive to external influences. While communication with potential visitors tended to be a mix of traditional and electronic methods, the most common activity was the development and ongoing improvement of business websites. A business website was regarded as one way of addressing the frustration over how best to communicate with potential international visitors. While website communication was seen as effective by most, few indicated how effectiveness was assessed.

Of all aspects of the marketing function, pricing of products was found to be an area where a linkage with Financial Yield was indicated. It was found that those operators who considered costs as a factor in their prices setting were associated with higher financial yields.

Questions about comparing business practices with other businesses found 75 percent of operators saw value in the practice, although the methods used were generally informal. These included observation, networking, and keeping a watchful eye on competitors. Formal benchmarking was not common but of the ten operators who use it, nine (90%) found it to be 'effective' or 'very effective'.

Three quarters (76%) of operators monitor their water and energy usage in some way. While energy efficiency appeared an important issue, only a few had actually made any energy saving changes; even the introduction of power saving light bulbs was not widespread.

Profit was the most common measure of financial performance used by operators. This was followed by the more simple measures of income and costs. Few use more complex measures or ratios.

Commercial debt was the most common source of financing currently held assets. Assets included land and buildings, vehicles, equipment, chattels and leases accumulated over the period of time the owner(s) had operated the business. In contrast, cash flow was the most commonly mentioned source of financing for expansion plans. Analysis of a small (7) group of businesses in the 'growth' phase of the business lifecycle and with high end financial yields revealed that six (86%) operators planned to utilise cash flow for expansion. The results suggest that operators prefer cash flow over debt as a source of funding, and this finding is consistent with international research on SMEs.

Operators chose their financing option for a variety of reasons including: cost effectiveness (most common); the extent of choice (none or obvious); the level of personal comfort with the option; the level of risk; a desire to be independent; and the ease of management. Only four operators were comfortable with debt. International research suggests that SMEs generally have less experience in planning for and managing debt finance, while lenders generally have less accurate assessments of the viability of any potential investment. Furthermore, it has been suggested that relying on internal funds may limit business growth. The latter was not explored in this research and may be an area for further research in the future.

The business operators in this research utilise a wide range of *tourism information* from a wide range of organisations and most of what they use they regard as 'useful' or 'very useful'. The most commonly requested improvement in tourism information was the need for more in-depth information about visitors and visitor markets. Some operators also indicated a desire to be able to benchmark themselves against others in their sector on business performance,

financial performance, wages and website effectiveness. A key message was the interest in information being accessible from the workplace; digital delivery would seem appropriate.

Business support mostly comes from professionals (e.g., accountants, mentors, lawyers, and HR specialists) and seminars and networking received some support. Few operators wanted business support in addition to what is already available in the community, perhaps reflecting a self sufficiency attitude. A few operators did, however, suggest mentoring and help with marketing.

Business operators were found to be innovative in the way they carried out their activities with many references to continuous improvement alongside plans to grow or expand their business. Consultation with professionals and networking within their industry suggested they had access to external information on which to base their innovations yet the low uptake of government tourism research and the lack of market research occurring within businesses suggest that opportunities to take up new knowledge are being missed.

In the context of this research programme, Financial Yield is defined as:

$$\frac{Gross\ Operating\ Surplus - Taxes + Interest + Leases}{Fixed\ assets + Leased\ Asset\ Value}$$

Those businesses (55) that had Financial Yields in the range of -30% and +30% were subjected to analysis. Exploring linkages between Financial Yield and sector found that all nine B&B businesses were in the lowest quartile (quartile one) of Financial Yield while the highest quartile (quartile four) was populated with many 'activity' businesses. This was not a surprising finding given the differences in capital investment for these two sectors.

Linking business practice activities with Financial Yield was a difficult challenge; making associations between qualitative responses and quantitative data was particularly difficult due to the large amount of qualitative information and the small sample size. The only business practice identified as statistically significant for Financial Yield was that of factoring costs into price setting; those operators who considered costs in their pricing were associated with higher Financial Yields.

A comparison of quartile one businesses with higher yielding quartile four businesses found that more quartile four businesses were focused on growth, had plans to expand, considered cost and competition as factors for pricing, considered both cash flow and debt for expansion, and used profit as a financial measure for business performance.

The breadth of business practices explored in this research is both a strength and a limitation. It has enabled an enhanced understanding of how tourism operators run their businesses, yet the responses have revealed that in some business areas, more focused research is needed. This would enable a more in-depth understanding and would inform the ongoing improvement of business support tools in the long term. Business areas where further research would be most useful are: employee practices; international marketing; communication with potential customers; website utilisation and effectiveness; and options for financing growth.

The findings from this research highlight a number of business practices that can now be explored further in the tool development phase of the research programme. These are:

- Human Resource Management
- Marketing: market research, planning, pricing
- Innovation: enhancing the understanding of its value to businesses
- Growth strategies
- Financing growth
- Financial performance measures

The findings from this research now need to be integrated with all other private sector projects in this research programme, and considered alongside other recent business, government and academic literature, to ensure the scope of business practices is sufficiently focused, and to take account of any new knowledge from recent research. Industry and stakeholder input into the tool development process is paramount. These processes will determine and prioritise the business areas where business support tools are developed. Importantly, decisions that will be made post this research programme about who develops the tools, who implements and manages their delivery, how the tools will be monitored and reviewed to ensure effectiveness in the long term also need to be considered in the next phase.

Chapter 2
Introduction

This Report is part of the Research Programme 'Enhancing Financial and Economic Yield in Tourism'. The Research Programme is a collaborative venture with funding from the Ministry of Tourism and the Tourism Industry Association of New Zealand (TIANZ), and the research being undertaken by The Tourism Recreation Research and Education Centre (TRREC) at Lincoln University.

This report is the last of three that present the findings of research carried out in the private sector of tourism. The first reported on a nationwide survey of small tourism businesses (i.e., 5 FTEs or fewer) was carried out in 2005. The second reported an analysis of the Tourism Satellite Accounts (TSA) for measures of sector performance and business benchmarks. This Report presents the findings of in-depth interviews with small and medium tourism businesses (up to 50 staff) carried out during mid 2006. The objectives were:

1. To better understand the business practices of small and medium tourism enterprises (SMTEs) in New Zealand.
2. To explore whether linkages can be made between business practices and financial yield.
3. To identify the business support needs and wants of SMTEs.

An initial scoping exercise identified a number of recent reports and documents on business practices (e.g. Firm Foundations; SMEs in New Zealand: Structure and Dynamics; Business Guide to Sustainable Development Reporting; the Baldrige Criteria for Business Excellence) that could serve as important reference points for the development of the project framework. In taking this approach the research builds on what is already known about the New Zealand small and medium enterprises in general, as well as most specifically contributing to a greatly enhanced understanding of the private sector of tourism.

The methods used for the research and the rationale behind the decisions with regard to how the different aspects of the research processes would proceed are presented in section 3.0. Section 4.0 reports the key findings from the interview questions and this is followed by a section exploring linkages between business practices and Financial Yield. Section 6.0 presents a discussion on the findings with some interpretations aimed at promoting further discussion. The discussion ends with a small section on the limitations of the research and includes a 'where to from here' scenario in terms of the next phase of the research programme that focuses on determining a range of appropriate business support tools. A short conclusion precedes the bibliography and appendices section.

Chapter 3
Methods

The most important decisions to be made at the outset of the project included determining the kinds of tourism businesses that should be targeted, how many businesses should be included, how to communicate with the potential and committed interviewees, and what range of topics should be the focus of the interview.

This section includes the rationale behind the decisions that were made, the methods for selecting the businesses to be included, the communication and testing processes, and the basis for the data sought.

3.1   Rationale for Selection of Interviewees

While some may argue that all business operators carry out their day to day activities in much the same way, the research team believed that the research project needed to include business operators from across a number of tourism sectors. On this point, the team was informed by a number of sources but ultimately was guided by the Tourism Industry Awards 'Tourism Business Category Definitions' which provided a good description of each sector and provided coverage across the tourism characteristic1 sectors. It was decided that the following categories would be included in the research:
- Visitor accommodation
- Visitor activities
- Visitor attractions
- Tourism transportation

Initially the New Zealand definition of a SME (i.e., up to 19 FTE staff) was used as a guideline for the kind of businesses to include in the project, however, this was later changed to 'up to 50 staff' to ensure well established businesses that had experienced some success were selected, in the anticipation that they might be able to provide useful insights into what is needed to grow a business successfully. As the results show, two businesses indicated they had more than 50 staff in the peak season (54 and 58 employees), but both businesses were retained for the analysis. The research team was also mindful of the potential for the development of case studies as part of the 2007 phase of the research programme.

It was determined that the actual owner(s) of the business would be best placed to respond to the questions posed in the interview. Consequently the availability of a proprietor for the interview process became a consideration when seeking commitment from a potential interviewee. This was not possible for not-for-profit trading entities and so for these organisations general managers or someone of a similar seniority was contacted.

Finally, the research team recognised there was value in including interviewees from both a gateway and a primary tourism destination. This led to the decision to include business operators in Christchurch and Rotorua (and their environs).

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1   A tourism characteristic sector is one where at least 25 percent of the output is purchased by tourists.

The initial research plan indicated that 200 separate interviews would be undertaken. As the full research programme and interview process evolved, however, it became evident that this number of interviews was not possible in the given timeframe, given the depth of data required. Furthermore, to establish trust and rapport, each interviewee would require individual contact from the research team on four separate occasions, as follows:

1. Written communication inviting the business to participate in the project
2. A phone call seeking a commitment to an interview
3. A face to face meeting to carry out the interview
4. A report of findings back to the interviewees

Recognising the importance of the quality of each of the communications with the interviewees, it was agreed that approximately 70 business operators would be interviewed.

3.2   Methods of Selection of Interviewees

The Telecom database of 13,413 tourism businesses, utilised for the business survey undertaken in 2005, was identified as the most up-to-date and comprehensive source of tourism business names. From this database, businesses located in Rotorua and Christchurch (and their environs) that belonged to the accommodation, transport, attractions and activity sectors were extracted. This gave us 923 businesses, 501 (54%) of which were in the accommodation sector, 266 (29%) in transport, and 156 (17%) in the attraction and activities sectors.

Initially it was determined that a random sample from the Telecom database would be most scientifically rigorous. The resultant sample, however, proved to be strongly populated with accommodation providers. The research team thus determined that some application of local knowledge would assist in the process of identifying a better mix of businesses in terms of sector, as well as size and length of operation. Furthermore, this also provided an opportunity to incorporate some businesses that were not listed in the Telecom database.

A request to assist in the database development process was made to Tourism Rotorua who responded by providing a mix of local operators and this became the core database for Rotorua. The original Telecom database for Christchurch was supplemented from businesses that appeared in the Christchurch and Canterbury Marketing's membership listing. The small business operators who took part in the small business survey in 2005 and had indicated an interest in being involved in further research were also added to the database if they were not already present. Two business operators in Christchurch volunteered to participate having heard about the project via an announcement at the TIANZ Regional Roadshow and a discussion with a research team member. The final Rotorua database consisted of 64 small and medium tourism businesses and the Christchurch database consisted of 155.

3.3   The Questionnaire

The over-riding driver for the development of the questionnaire was the project's three key objectives (see Chapter One). These were broad in nature and some decisions needed to be made in terms of what aspects of a tourism business might be explored. While a number of

earlier research projects, reports and broader business literature were consulted, the following reports were the main influencers on the research team's decision making.

- Ministry of Economic Development. 2002. Firm Foundations: A Study of New Zealand Business Practices and Performance.
- Ministry of Economic Development. 2004. SMEs in New Zealand: Structure and Dynamics.
- Baldrige National Quality Program. 2006. Criteria for Performance Excellence.
- The New Zealand Tourism Awards Framework

The research team also considered that small and medium tourism businesses do differ in their business practices from large organisations and therefore some judgement was applied in terms of what was included in the questionnaire, and what was excluded. Notably, the questionnaire did not probe issues of strategic planning and leadership.

To ensure that the traditional gap analysis was not the only approach utilised in the research, an appreciative approach (see Cooperrider & Srivastva, 1987) was also built into the questionnaire to ensure business operators were questioned about the strengths of their businesses and how these are built on for improved performance.

While business excellence literature routinely makes reference to 'innovation', the research team decided not to ask a series of questions that might be grouped under such a heading. Rather, questions about recent actions, planned actions, and the rationale behind particular practices, were asked throughout the questionnaire. It was anticipated that this would open up discussion about all new initiatives rather than those that operators felt were 'special' or 'significant', thereby ensuring that initiatives that might be considered as 'continuous improvement' would also be taken account of. Taking this approach also ensured that the information received was actual practice rather than intentional.

In terms of questions about environmental issues, it was initially proposed that questions focus on business operator actions regarding waste. Following much discussion, however, it was determined that this 'end of pipe' approach was outdated and that it would be more helpful for operators to be thinking in terms of resource inputs and the efficient use of those resources. Questions were developed around water and energy use and probed whether operators evaluated whether these resources were used efficiently and whether alternative sources of energy had been considered.

Ultimately questionnaire development took account of some basic collation, analysis and reporting needs:
- To have good information about each business and its proprietor(s) for communication purposes.
- To understand how proprietors view and assess their own business operations and results.
- To obtain financial data from which Financial Yield could be calculated for each business.
- To be able to compare Financial Yields with the results from the analysis of New Zealand's Tourism Satellite Accounts as reported by Moriarty (TRREC Report 2/2005).
- To obtain some initial feedback on the kind of tourism information and business support that is currently utilised by tourism businesses, and to identify the kind of information and business support that would be helpful to operators.

The questionnaire was developed and refined over a period of several weeks by the research team and was peer reviewed by Michael Shone, Researcher, Lincoln University.

3.4   Testing

Five tourism businesses in Christchurch were selected to test the questionnaire questions and the interview process. All three research team members attended two test interviews to ensure all took a similar approach to the interview process. Each team member then carried out one further test interview.

As a result of the testing, some small modifications were made to the questionnaire after which it was concluded that the questionnaire would deliver the information desired and that the interview process was such that a good percentage of potential interviewees would be happy to make a commitment to the project.

3.5   Interview Scheduling

3.5.1   The Process

A letter of invitation, together with an information sheet outlining the research project, was sent to business owners on each database (Rotorua and Christchurch) approximately three weeks before the scheduled interview period for each city. This was followed up a week later with a personal telephone call from one of the research team with the aim of securing an interview meeting. The same team member made all the initial telephone calls thereby ensuring consistency of approach. For some businesses several telephone calls had to be made before contact was made with the actual business owner and on some occasions requests were made for the information sheet to be emailed to them as they had lost the original, thereby extending this initial communication with them.

While the scheduling process evolved into a much larger exercise than anticipated it ultimately achieved the aim of providing an opportunity to engage in conversation with the business owner about the project prior to the interview occurring. A general theme reported by all researchers was the generosity of the owners at the interview meeting in terms of their willingness to be helpful and of their time given.

3.5.2   Non Interviewees

Unexpectedly, fewer interviews were able to be secured in Rotorua than anticipated and only two team members travelled there for the scheduled interview week; half (51.1%) of the business owners could not be contacted during the scheduling period (Table 1). One contributor to this was TRENZ 2006 which ran during part of the interview scheduling period.

In Christchurch, 44 (39.6%) operators declined involvement. Many stated they were 'too busy', three indicated they had done enough surveys in recent months, and one did not want to provide financial information. Twenty five (22.5%) operators could not be contacted personally despite a number of contacts with their office staff or voicemail messages left requesting a return phone call. Those not meeting the research criteria were mostly those businesses where the owner was not based in Christchurch. Other reasons for non

participation included those who were in the process of selling the business, those who had recently sold the business, and those who had bought the business within the last year. The latter situation meant no financials would be available for the analysis process.

Table 1
Reasons for owners not participating in the project

Reason	Christchurch	Percent	Rotorua	Percent	Total	Percent
No	44	39.6%	10	21.3%	54	34.2%
Couldn't contact	25	22.5%	24	51.1%	49	31.0%
Yes but couldn't agree on a time	4	3.6%	6	12.8%	10	6.3%
Other	10	9.0%	0	0.0%	10	6.3%
Doesn't meet criteria	7	6.3%	2	4.3%	9	5.7%
Not operating	7	6.3%	1	2.1%	8	5.1%
Sold business	7	6.3%	0	0.0%	7	4.4%
New owners	1	0.9%	4	8.5%	5	3.2%
Selling business	4	3.6%	0	0.0%	4	2.5%
Merged with another business	2	1.8%	0	0.0%	2	1.3%
Total	**111**	**100.0%**	**47**	**100.0%**	**58**	**100.0%**

A theme that emerged from this exercise was that despite this winter period being regarded as the 'off-season', business operators were still busy with new marketing initiatives and asset developments or upgrades. This supports the view that seasonality is a concept that is about the timing of visitor streams rather than businesses activity which in reality continues throughout the twelve month period. Furthermore, the winter period was also considered a time for personal rest (vacations) after spending a lot of time with people which can be exhausting.

3.5.3   Completed Interviews

In total, 76 business operators agreed to take part in the interview process. Of these, ten business owners were not interviewed because a suitable day and time could not be arranged within the scheduled interview phase, despite this being extended in Christchurch. The Rotorua and Christchurch interviews, together with those completed during the test week, brought the total number of businesses participating in the research to 65 (Table 2). Two owners were present at 12 of the interviews, bringing the total number of people interviewed to 77.

Table 2
Interviews completed Rotorua & Christchurch

Interviews	No. of interviews completed	% of all interviews completed
Christchurch	43	66.2%
Rotorua	17	26.2%
Test week (Christchurch)	5	7.6%
Total	**65**	**100%**

The interviews undertaken in Rotorua were carried out by two of the research team during the week 26 – 30 June 2006. Seventeen businesses were interviewed (27% of the Rotorua database). The interviews undertaken in Christchurch were carried out by all three members of the research team during the period 31 July – 15 September 2006. Forty four businesses were interviewed (28% of the Christchurch database).

A small number of business operators declined to give financial information during the interview or the data proved to be inadequate for the purpose required and so the yield calculations available for analysis are ten fewer than the interviews undertaken (55).

The final tally of businesses interviewed within each sector reflects the research team's efforts to ensure the accommodation sector did not dominate the research (Table 3). Businesses within the activities and attractions sector are proportionately over represented but given the wide range of businesses within this sector (e.g. profit and not-for-profit businesses, and the variety in the nature of the activities) this was regarded as useful. The shortfall in the transportation sector was primarily due to many Christchurch rental car businesses not being run by owner operators or the owner being based in Auckland.

Table 3
Businesses by sector and financial yield quartile

	Quartile 1 -17.91% to 3.65%	Quartile 2 4.36% to 6.98%	Quartile 3 8.82% to 11.74%	Quartile 4 12.2% to 296.34%	Total
Accommodation	**9**	8	9	3	29
Activity	2	1	1	11	15
Attraction	0	1	2	3	6
Transport	1	0	1	3	5
Total	*12*	*10*	*13*	*20*	*55*

3.5.4   Interview Data Entry and Analysis

An MS Excel spreadsheet was created to enable each research team member, located at separate geographic locations, to enter the responses of each interviewee. Analysis of financial data proceeded within MS Excel. Business operator data were imported into SPSS for frequency analysis and cross tabulation. Analysis of the qualitative responses was carried out in MS Excel where application of key words to common themes allowed for easy data sorting of responses.

Chapter 4
Results

This section reports the key findings from the interviews. Section 4.1 provides a profile of the business operators who participated in the study and their businesses. All other sub-sections provide the key findings from the interview questions.

During the analysis phase, common themes were identified in the responses to each interview question and each theme was allocated a keyword. This provided the opportunity to sort responses thematically and to identify the most common themes. For some questions this also allowed quantitative analysis to be applied to the data; where this occurred, the results have been presented in graphic format.

Note, where names and comments have been replaced with alternative words for confidentiality and clarification reasons, the text has been inserted in [brackets].

4.1   Business and Business Owners

A total of 77 business owners were interviewed from 65 tourism businesses. Twenty five (32.5%) of the interviewees were women and 52 (67.5%) were men. Forty three (66.2%) interviewees were over 45 years of age (Table 4). While it can not be assumed that this is representative of all the tourism sectors, one might expect that as one ages, there could be changing perspectives in such things as planning periods, size of expansion plans, comfort with levels of indebtedness, and desire for control and independence as people head toward the latter years of their working lives.

Table 3
Age ranges of interviewees

Age range	Frequency	Percent
16 – 24 years	0	0.0%
25 – 34 years	7	10.8%
35 – 44 years	15	23.1%
45 – 54 years	21	32.3%
55 – 64 years	19	29.2%
65 years +	3	4.6%
Total	**65**	**100%**

Nearly two thirds (64.6%) of businesses have owners with post secondary school qualifications (Table 5). The bachelor degree was the most common qualification, followed by a post graduate qualification.

Table 4
Highest qualifications of business owners

Qualification level	Frequency	Percent
School	23	35.4%
Certificate	1	1.5%
Diploma	5	7.7%
Trade Certificate	5	7.7%
Bachelor degree	14	21.5%
Professional qualification	3	4.6%
Post graduate	11	16.9%
Other	3	4.6%
Total	**65**	**100%**

Of the 42 businesses with owners with a post secondary school qualifications, 16 (39%) have tourism or business related qualifications (Table 6). These include Bachelor of Commerce, Diploma of Business, Chartered Accountancy, MBA, Diploma of Hotel Management and chef qualifications. That a majority of the qualified owners have unrelated qualifications may suggest that there is not a strong link in people's minds between their qualifications and the type of business they decide to start or purchase.

Table 5
Type of post secondary school qualification

Qualification level	Frequency	Percent
Tourism related	3	7.3%
Business related	13	31.7%
Arts	10	24.4%
Science	5	12.2%
Engineering	3	7.3%
Professional	2	4.9%
Trade	2	4.9%
Other	3	7.3%
Total	**41**	**100%**

The most common business structure was a limited liability company (43 businesses). Nine business owners were sole traders and seven businesses were partnerships. Other arrangements included a charitable company (1), a charitable trust (2), an incorporated society (1), a local government entity (1), and a joint venture (1).

Twenty four (37%) business operators had been operating their business for three years or fewer suggesting they may still be in a learning phase in terms of their current business (Table 7). The survey of small business operators (i.e. with five or fewer staff) carried out in 2005 found that over half (52.9%) of small business operators had been in their current business for fewer than three years.

Table 6
Longevity operating the current business

Number of years	Frequency	Percent
1	4	6.2%
2	8	12.3%
3	12	18.5%
4	4	6.2%
5	2	3.1%
6	2	3.1%
7	9	13.8%
8	2	3.1%
9	2	3.1%
10	3	4.6%
12	1	1.5%
13	2	3.1%
14	3	4.6%
15 – 30 years	11	16.5%
Total	**65**	**100%**

Business owners were asked how many businesses they had owned or managed and over what period of time. Forty four (67.7%) owners had run more than one business. Forty six (70.8%) owners had 10 years or more experience in operating or managing a business. In other words they brought business management experience to their current business. Forty seven (72%) operators had previous experience managing a tourism business.

Business owners were asked to identify the business lifecycle stage they believed their business was currently at. The options were: start up (you are developing the business and generating increasing volumes of customers); stabilisation (the business is stable and customer numbers are consistent with your capacity); growth (you are increasing capacity to attract increased volumes of customers); and maturity (you have decided to maintain the business at the current level). Nearly half (47.7%) indicated their business was in the growth phase (Table 8).

Table 7
Stage of the business lifecycle

Stage	Frequency	Percent
Start up	12	18.5%
Growth	31	47.7%
Stabilisation	8	12.3%
Maturity	14	21.5%
Total	65	100%

Forty three percent of the accommodation and transport operators indicated they were in growth phase while 50% of the activity operators and 71% of the attraction operators indicated they were in growth. This result may reflect the constraints to growth that accommodation operators face. While expansion of vehicle fleets is less constrained, it can be costly. Activity and attraction businesses may provide greater scope for small scale growth.

Cross-tabulation of time in the current business and business lifecycle showed:

- Eight of the ten respondents in start-up phase have been in their current business for three years or fewer.
- 31 respondents in growth phase have been in business between one and 17 years.
- Eight respondents in stabilisation phase had been in business between two and 12 years
- 14 respondents in maturity phase had been in business for between five and 30 years.

This may suggest that after a time – in this study 17 years – the interest in growing the business fades and a decision is made to go into a 'maintain' mode of operation (maturity).

A majority (80%) of businesses had one to three owners / partners / shareholders working in the business on a full time basis, while 20% of businesses had no fulltime owners. The latter included businesses that were run by employed managers or not-for-profit organisations where no private individual was identifiable as the 'owner'. Over a quarter (27.7%) had owners working in the business on a part time basis, while most (72.3%) businesses had no owners working in the business on a part time basis. This suggests operators recognise the need, and / or the advantages, of making a fulltime commitment to the running of their business.

Interviewees were asked about their staffing during peak season: fulltime; part time; temporary; casual. Numbers reported here are individual staff members not FTEs.

Half (50.8%) of the businesses had no fulltime staff members (Table 9). Nineteen businesses employed between one and five fulltime staff, seven businesses employed between six and 19 fulltime staff, and six businesses had between 20 and 58 fulltime staff during the peak season.

Table 8
Number & percent of businesses with fulltime staff

Number of fulltime staff	Frequency	Percent
0	33	50.8%
1	8	12.3%
2	4	6.2%
3	2	3.1%
4	2	3.1%
5	3	4.6%
6	1	1.5%
8	1	1.5%
9	1	1.5%
10	1	1.5%
14	1	1.5%
15	1	1.5%
18	1	1.5%
20	2	3.1%
25	1	1.5%
30	1	1.5%
48	1	1.5%
58	1	1.5%
Total	**65**	100%

Thirty four (52.3%) had no part time staff employed during the peak season while 31 (47.7%) did (Table 10).

Table 9
Number & percent of businesses with part time staff

Number of part time staff	Frequency	Percent
0	34	52.3%
1	9	13.8%
2	4	6.2%
3	2	3.1%
4	1	1.5%
5	2	3.1%
7	2	3.1%
8	3	4.6%
10	1	1.5%
12	1	1.5%
13	2	3.1%
14	1	1.5%
18	1	1.5%
20	1	1.5%
40	1	1.5%
Total	**65**	**100%**

A quarter (24.6%) of the businesses employed casual staff in the peak period while most (93.8%) did not employ temporary staff during the peak period.

Twelve of the businesses had no employed staff at all; nine of these were hosted accommodation businesses. One activity business runs as a not-for-profit business and relies on volunteers to deliver its activities.

If all part time, temporary and casual employees are considered as 0.5 FTE, 37 (57%) of the businesses in this study meet the New Zealand criteria as a 'small' business (i.e., they employ five or fewer FTEs). In summary, there is a broad mix of staffing profiles amongst the businesses participating in the research.

4.2   Motivations

4.2.1   Original Motivations

Several broad themes emerged from the responses to the question on what initially motivated people to go into their current business. Motivations included a variety of business reasons; they wanted to work for themselves, had the desire to build a business, or create a great customer experience. Others were motivated by enjoyment of the activities they were involved in, or were interested in meeting people. For some, the business provided them with a choice to do something they wanted to do, or to avoid something they did not want to do. A few couples wanted to work together and the decision to do so appeared to come after one partner experienced ill health or their children had left home. A small number of respondents were in the business because family had been in the business, and a similar number saw the business as a transition to retirement.

Those who were strongly business focused responded in terms such as: *"wanted to create value... build a business from scratch"*, *"wanted to re-establish myself in business"*, *"read this was one of the most lucrative businesses to be in"*, *"wanted to be in a growing industry"*, *"were already in tourism"*, *"know and understand business"*, *"want to make money"*, and *"wanted to be self employed"*.

Some respondents indicated they wanted to be self employed seemingly more for independence rather than wanting to be 'in business': *"liked working for myself"*, *"wanted to own my own business"*, *"wanted to work for myself"*.

Those who indicated they enjoyed what they were doing did so with highly emotive language: *"fell in love with the B&B"*, *"love it, do what I love"*, *"loved animals"* and *"love New Zealand outdoors"*. While the word 'lifestyle' was used on a number of occasions by this group of respondents, the stated motivation was clearly on their enjoyment of the activities they were providing: *"interest in 4 wheel driving"*, *"like jet boating"*, *"enjoy outdoors and meeting people"* and *"wanted to work outdoors"*. The word 'lifestyle' was not an indication that they wanted to give less than 100% commitment to their business. Rather they were integrating personal and business objectives.

For some, going into business provided a choice to *"change lifestyle"*, *"grow personally and become self reliant"*, *"get out of ... study"*, and *"move to Christchurch"*. For one respondent it was a way of moving on from redundancy and another to provide a means of work after a work accident ruled out previous work options.

Of those who indicated the business was a transition to retirement, some indicated it was a means to achieve *"enhanced early retirement"*, *"long term security"*, or to work together and *"have similar activities upon retirement"*.

To summarise, most respondents had a combination of both personal and business motivations when initially going into business.

4.2.2   Current Motivations

Interviewees were asked whether they were still motivated by the same things as when they started in their business and if so, why? Of the 65 respondents, 37 (56.9%) indicated with a clear *"Yes"*. Many respondents also added to the initial list of motivations.
Over half were motivated by 'business related challenges': *"30 year planning"*, *"income"*, *"vision – there are things I want to do"*, *"going toward being the best, build the business"*, *"want to go bigger now"*, *"challenge is to achieve a better rate and happy customers"*, *"want to be the best"*, *"continue to see the business prosper"*, *" grow business faster"*, *"operate to a stage where successful and then sell"*, *"financial gain"*, *"make best use of asset"*, *" ... want to get business side of things right"*, *"improve customer experience"*, *"own everything now, looking to sell"*, and *"selling other good trips as well"*.

Six respondents responded with a 'No' to being motivated by the same things. Three of these were initially business motivated but had changed their motivation; one toward *'lifestyle'*, another as a *"fill in till retirement"*, and the third to *"growing the business and creating opportunities for the children"*. The remaining three respondents who were motivated by non-business motivations were now motivated primarily by business reasons: *"developing new business"*, *"own everything now and looking to sell"*, and *"financial gain"*.

Some had mixed feelings about how the business had panned out in light of their initial motivations: *"financially poorer but better off lifestyle wise"*, *"want to do less relief [work and have] more leisure"*, *"motivation is challenged by having to do everything all the time"*, *"too much travel / stress"*, *"combination of long hours and a young family provokes a search for other opportunities"*, and *"social side keeps me going"*.

Overall, responses were very positive and for some, the results of their time in the business had motivated them more towards business and financial results: *"Need a better yield as we can't make a living from it yet"*, *"saw good growth ... and wished to remain part of it"*, *"now more convinced as to the benefits of being in this facet of tourism"*, *"think more about profitability"*, and *"recent business success has confirmed ... motivation"*.

4.3 Assessing Business Success

Respondents presented a wide range of ways that they measure their business success and most gave two or three different criteria. Some clear themes emerged from the data; customer satisfaction was the most common by far, being mentioned 34 times (Figure 1). This was followed by visitor numbers (18 times) and profit (16 times). Other criteria included stakeholder support, enjoyment, money, turnover (revenue), repeat customers, longevity in business, personal satisfaction, business growth and a balance of personal and business goals.

Figure 1
The most common ways business owners assess their business success
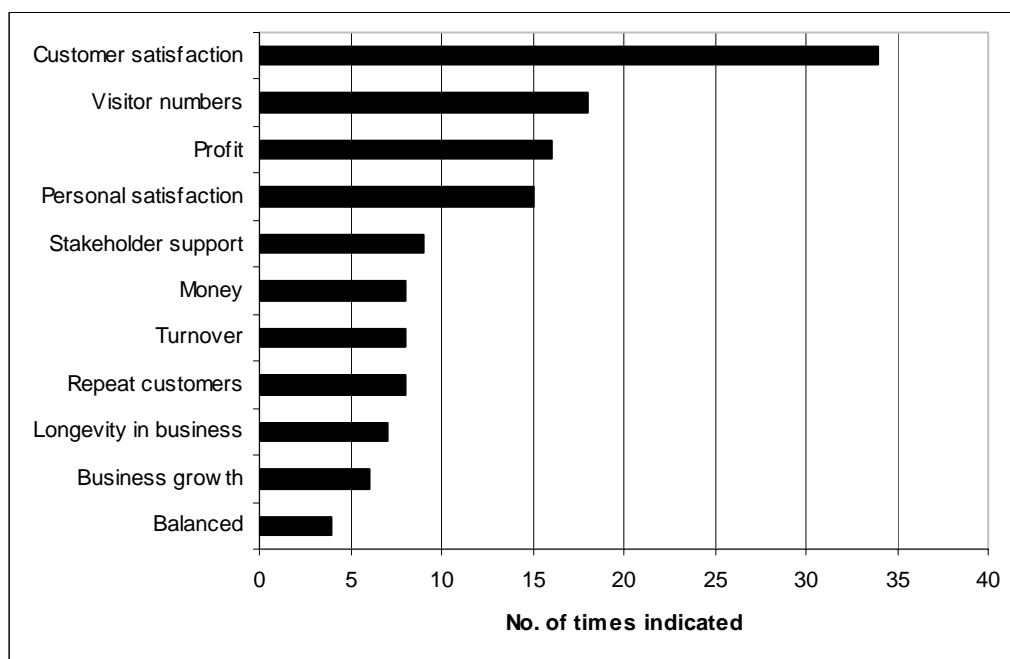
Responses of a 'customer satisfaction' nature were very explicit with terms such as *"customer satisfaction"* and *"customer feedback"* being most common. Similarly, 'visitor numbers' included comments about *"occupancy"*, *"number of people..."*, *"number of customers"*. Comments categorised under the 'profit' theme included *"profit"*, *"profitability"*, *"...bottom line"*, and *"making a profit"*. Personal satisfaction included comments such as: *"personal satisfaction"*, *"enjoyment"*, *"able to enjoy the lifestyle you want"*, *"follow personal*

pursuits", "friendships made", and "social spin-offs – invitations to stay with past customers". The comments we categorised as 'stakeholder support' were more varied. These included: *"community engagement", "booking agency support", being recognised as providing input into the industry", "charitable objectives of the Trust", "staff satisfaction", "status of partnership relationships within the business model", and "industry recognition".*

Most respondents indicated two or three different criteria. Most included criteria of a financial nature, and a mix of financial, customer focus, and personal satisfaction was very common.

These findings provide a sense of consistency of thought on the part of the business owners; they have a mix of personal and business motivators and this appears to flow through into how they assess their business success.

On the basis of owners' criteria for business success, respondents were asked how they would describe their business performance in the last year. Responses were summarised into four categories: poor, mixed, good, and very good.

Twenty four (38%) of the 64 respondents answered in a way that was categorised as 'very good' and 25 (39%) were categorised as 'good' (Figure 2). Nine (14%) gave a mixed response and six (9%) a response indicating a poor performance.

Figure 2
Self assessed business performance for the last year
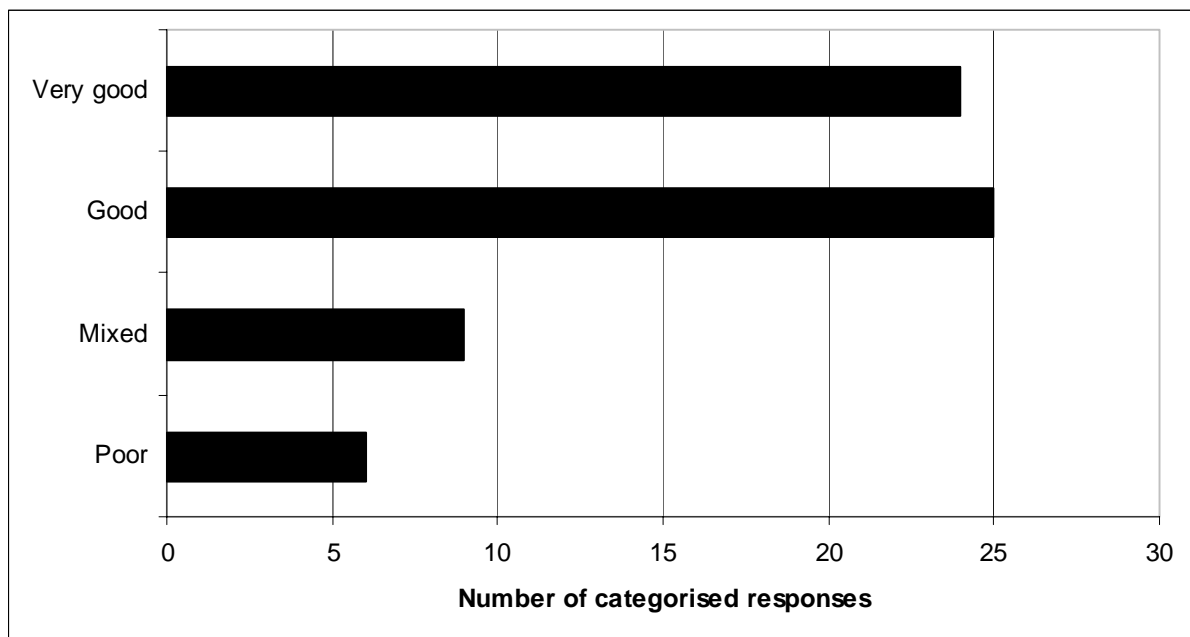
Comments categorised as 'Poor' included phrases such as *"down", "below expectation", "less business around", "declining returns", and "unsatisfactory".* 'Mixed' included comments such as *"starting to realise potential", "not as well as last year", "financially terrible otherwise extremely good", and "personal and customer satisfaction has been very good but economic returns have not been good".* 'Good' included comments such as *"satisfactory", "average", "successful", "doing okay", "doing alright", "so far so good", "growing", "heading in the right direction", and "better than previous years".* 'Very Good' included comments like *"top class", "profitability up dramatically", "absolutely achieved",*

"exceeding expectation", "excellent", "great success", "dramatic", "very successful", "very good consistent profit", and "very happy guests, still up there".

4.3.1 Greatest Contribution to Business Success

Respondents reported a wide range of actions that they felt were making the greatest contribution to the success of their business. The most commonly reported action was of a marketing nature (64 mentions) and this was followed by actions associated with people (27), products (26), and assets (25), although these received less than half the amount of attention than did marketing (Figure 3).

Figure 3
Type of recent actions making the greatest contribution to business success
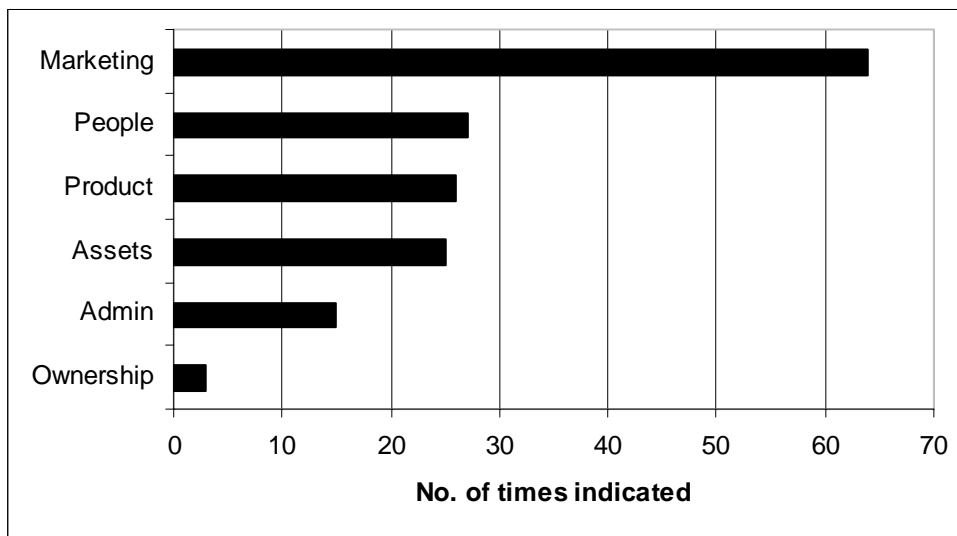
The most common marketing response was about actions associated with website development (16). This was followed by issues of a more strategic nature (11): rebranding; change of name; marketing strategy. Building relationships with people (e.g., inbound operators, agents, past customers) was also common. Product related activities were about improving current products as well as developing new ones.

'People' related comments from operators were mostly about themselves or their staff. Of themselves, they spoke about: *"100% commitment", "taken time out to refresh", "attending courses through [RTO]", and better personal leadership".* Responses about staff included: *"employed key staff", "employed someone 20 hours a week to help with promotion", "invested in fulltime staff", "fulltime manager appointed", "staff training" and "rationalised my staff in order to get better control of costs".* Comments about activities associated with customers were: *"getting to know guests personally", "offering a very personalised service", "exceeding expectations of customers through complimentary service", and "meet and greet tourists at the airport."*

Responses about assets included: *"new hot water system", "own maintenance facility", "enhancement of kitchen", "enhance property and garden", repainted most of complex", "upgraded some rooms", "expanded the complex", "redecoration", and "extra bathrooms"..*

When asked about the future actions that would be taken to increase the success of their business, 'marketing' and 'product' both scored highly again (first and second ranking respectively) but people related activities were fifth in ranking (Figure 4). Third ranked activities were those relating to assets and these were about expansion as well as improvement: *"setting up a chain", "more units", "expand into motels", "more [vehicles]", "increasing fleet", "purchase property", "upgrade", and "refurbishment".*

Figure 4
Future actions expected to increase the success of the business
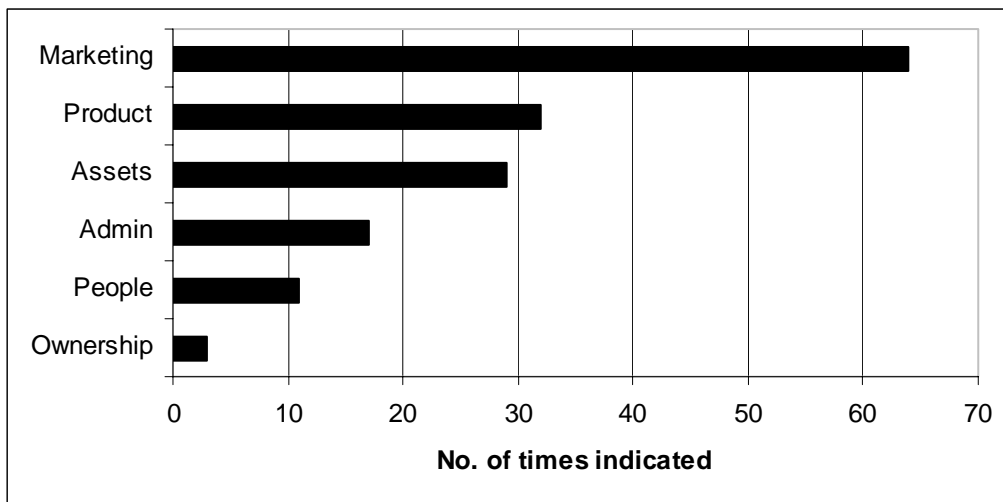
The results suggest that there is a strong link in operators' minds between marketing activities and business success. Operators also see the value in asset management and development. Why people related activities should take a back seat (even to administration) in terms of future activities is interesting, particularly in light of the broader recognition that human resources are critical issues for the industry. Perhaps this 'disconnect' is contributing to the lack traction being achieved in relation to workforce issues. In addition, it might be expected that customer related activities would continue to be a strong focus especially since customer satisfaction is the most common way that operators assess their success. It may be, however, that in operator's minds, customer related activities and 'marketing' are seen as synonymous.

4.4   Business Strengths

Respondents reported a wide range of strengths including their assets, people (owners and staff), location, marketing, the operation, and reputation.

The assets listed as a strength were mostly facilities which included buildings (e.g., *house, accommodation*), specific characteristics and features of the buildings (e.g., *spacious, modern, attractive, large*) car parking spaces (*off-street parking, lots of parking*), and the atmosphere associated with the property (e.g. *comfort, ambience, relaxing, tranquillity, peace*).

People featured high on the list of strengths; the business owners themselves and staff. Explanations about themselves [the owners] included: *"100% committed", "our passion for it", "proprietor attitude", "skilled and experienced owners".* Staff were seen as a key strength by many owners: *"good team", "long term staff", "flexible and friendly staff", "reasonably low turnover of staff", "dedicated team", "we have a really good crew", and*

"they are here because they want to be". Few respondents, however, were specific about the range or type of skills or competencies that the owners and staff brought into the business. This may be partly due to the nature of the question, which was a very open one, or perhaps due to typical kiwi modesty that tends to inhibit highlighting such strengths. Furthermore, it is interesting that only one respondent indicated with any certainty that their customers were a strength - *"customer loyalty"*.

Of those who indicated their location was a strength, they were either unspecific or for many it was location with regard to the nearby city centre or a particular attraction (e.g., beach, tourist attraction).

While several different aspects of marketing were mentioned as a strength by many, it was their products that were mentioned most often; position, pricing and promotion were mentioned only a few times.

Different aspects of the business operation were mentioned as strengths but no strong theme emerged. The most frequently mentioned aspect (7 times) was the 'flexibility' offered to customers. Other aspects included *"good systems"*, *"an unique New Zealand experience"*, *"the standard of operation"*, *"great experience for customers"*, *"make the guests feel special"*, *"long term planning"*, *"strategic planning"*, and *"consistency of quality"*..

Other strengths mentioned included financial strengths (e.g., overheads, cash flow, no mortgage), reputation (e.g., historical, value for money, uniqueness, brand) and longevity in business.

In answer to the question on how strengths affect the success of the business, the most common response by far was the potential impact they had on customers: getting more customers; meeting customer expectations; customer satisfaction; repeat business. Few operators mentioned the impact strengths had on the financial outcomes of their business; only a very small number of respondents mentioned that their strengths affected their revenue, costs, cash flow, or profit. A small number mentioned improved competitiveness and business growth.

4.4.1   Building on Strengths

In terms of how operators planned to build on strengths, responses were mostly of a marketing nature (49 mentions). Comments about assets (12) and staff (11) were mentioned by many and most notably, 'continuing with the same strategy' (28) or 'a continuous improvement approach' (13) were also common.

Responses of a marketing nature included: *"advertise more"*, *"use Qualmark in advertising"*, *"make the brand work"*, *"become more visual"*, *"market harder"*, *"build relationships with clients"*, *"target key agents more"*, and *"build corporate business"*. *"Point of difference"* and *"emphasise strengths*" were both mentioned once as were *"positioning" and "pricing"*.

Expanding or upgrading assets were common although to a lesser extent than the above practices and included: *"build up fleet"*, *"modernise units"*, *"improve the appearance of the site"*, and *"increase capacity and upgrade plant"*.

Responses regarding staff included: *"keeping a good core staff"*, *"do things for them – e.g., social outings"*, *"cash bonuses"*, *"input into planning"*, *"HR Plan"*, *"continue to invest in staff"*, *"continue to train and select good [staff]"*, and *"bring young people through"*.

Some respondents indicated a continuous improvements approach: *"continuous improvement in customer experience"*, *"continue to strive"*, *"incremental improvement"*, *"continual improvement of website"*, *"need to remember our strengths to keep the business growing"*, and *"keep updating"*. Of particular note, 28 (43%) respondents indicated they would be doing the 'same' as before: *"same strategy"*, *"not much"*, *"nothing specific"*, *"business as usual"*, *"maintain standards"*, *"continue with philosophy"*, and *"perfect now"*.

The findings here suggest there may be room for some operators to take a fresh view of their strengths and how they might build on them to add value to the business or for improved financial returns. Why do so few operators see their customers as a strength? Why do so few operators see their strengths as a point of difference, their competitive advantage? Why are strengths not seen as having a connection with financial outcomes?

4.5   Barriers

Business owners indicated a mix of both internal and external barriers. The main themes that emerged were: challenges operating in a competitive market place; financial constraints; people related barriers; problems associated with their products; and compliance issues.

The competitiveness of the market was mentioned by 15 respondents: *"competition"*, *"too many [companies]"*, and *"low entry level for new entrants"*. Difficulties associated with connecting with the visitor, especially the international visitor were also common: *"the difficulty in marketing off-shore to a niche market"*, *"getting international tourists ... when the target market is half the world"*, *"government promotion of New Zealand abroad appears unsatisfactory"*, *"visitor numbers not growing quickly enough"* , *"downturn in tourism"*, *"uncertain knowledge of inbound visitors mix in the value of the FIT market"*, *"falling demand for New Zealand"*, and *"New Zealand not flavour of the month"*.

Pricing issues were mentioned by seven respondents and included: *"price discounting by others"*, *"price is as high as is acceptable to the market"*, *"tariffs don't appeal to New Zealanders"*, and *"costs have increased although I have kept prices the same for the last eight years"*.

Financial constraints mostly related to a lack of funds: *"lack of capital"*, *"money"*, *"sufficient funding"*, *"earnings and investment money"*, and *"lack of profitability"*. The strength of the New Zealand dollar was mentioned six times as was the cost of energy. Two respondents indicated purchasing transport options was costly.

The most common response in terms of people being a barrier was the issue of finding staff: *"getting the right staff for the right jobs"*, *"finding the right people with the right personality"*, *"getting good people – because of the way tourism is presented to the community"*, and *"staff are not paid market wages due to cost constraints"*.

Comments about barriers associated with the owners were broad: *"myself at times, don't have all the skills and experience I need..."*, *"I like to be in charge and I'm not confident about employing a manager"*, *"having two jobs at once is too difficult and I need to be fulltime in*

the tourism business", "[X] owns most of the knowledge", "business relationships are with the owners", and "not enough time to do things - the 'down' season is a busy time for business development".

Problems associated with products were about location (eight responses) and capacity issues (six responses). Location problems included: *"not on an arterial route", "not central city", "off the main street", and "limited access to water".* Those indicating capacity as a barrier were all from the accommodation sector: *"limited to 'x' guest rooms", "lack of space to expand", and "limited size of property".*

The final theme of note was around compliance issues. These included issues associated with the cost of compliance, the RMA, local government, and employment law (e.g. '*Holidays Act*'). The DOC concession process, the cost of it and the potential for further restrictions in 'hotspots' was mentioned by two respondents.

Finally, other less mentioned barriers included the age of the assets, the weather and/or seasonality, asset ownership issues (e.g. declining rights of lease holders), and terrorism or world catastrophe (3 respondents).

As was the case in the previous section on strengths, the most commonly mentioned impact on the success of the business was the impact on customers (33 respondents). In contrast, however, 28 respondents indicated that the barriers had a financial impact; either increasing costs or reducing revenue and/or profit. The third most common response was the impact barriers had on business growth.

Responses associated with the impact on customers were very similar in nature: *"low custom", "restricted guests", "[fewer] visitors", "fewer domestic travellers", "inhibits international visitors", and "impacts on the target market".*

Increasing costs were quite broad however: *"need more staff on to cover", "labour costs up", "costly to employ staff over public holidays", "high maintenance", "gas costs up", "rate burden", and "time and money spent on compliance".* Responses about a reduction in revenue or profitability were similar in nature: *"not a lot of money available", "reduces revenue, profitability", "lowers revenue", "limits return", "lower yield", "reduced returns", "profit down", and "disposable income reduction".*

The final theme of note was the impact that barriers had on business growth: *"lack of capital has impeded growth", "reduced expansion", "reduced growth of business", "the size of the business is restricted", "limited ability to invest in the business", "kept business from growing", "impaired ability to grow the business", and "general speed of development".*

4.5.1 Overcoming Barriers

The main theme in the responses to how operators are overcoming or are planning to overcome their stated barriers was 'marketing': advertising; getting customer feedback; diversification; increasing market share; product development; enhancing relationships; reviewing prices; undertaking targeted marketing; growing, or advocating to a particular stakeholder in the business. Many of these responses were very unspecific simply stating '*more marketing*', '*more effective marketing*' or something similar. The two most commonly mentioned marketing related actions that were specific were 'developing relationships' and

'reviewing prices'. This reflects a strong emphasis on growing customer volumes as opposed to adding value or improving the efficiency of resources used.

Developing relationships included: *"working with DOC", "work with Tourism New Zealand", "keep talking with Government, local government and TIANZ", "want closer liaison with … information centre", "cooperation, feed off kindred organisations", and "keep abreast of developments in the industry".*

Price reviews included actions such as *"introduce small price increases", "review price flexibility during the low season", "increase wholesale price", "offer winter special in 2007", and "will move price upward when we feel it is appropriate".*

Responding to barriers by way of human resources primarily focused on recruitment policies: *"actively bring in young people", "employ backpackers", "keep looking to get the staff required", and "poach staff from other businesses".* Other people related actions included undertaking professional development and providing training to staff, delegating specific tasks to staff, getting a mentor, looking for a new business partner and increasing the level of one's personal commitment to the business.

Financially related actions to overcome barriers included: managing cash flows better; increasing revenue; building equity; investing in the business; and securing debt. That financial goals were mentioned more often here than in the question about strengths is perhaps not a great surprise. Outgoing cash flows are much more noticeable to a business owner than potential revenues.

Doing nothing was also a very common response to stated barriers. Many felt they could not do anything as a small operator while others had considered options but decided not to act. Several were taking a 'watching brief' approach to see how a specific situation developed.

4.6   Employee Practices

Of the 65 businesses who participated in this research, 46 (71%) indicated that they employed fulltime, part time, temporary or casual employees in the peak season. Responses below address two questions: (1) What range of actions do you take to ensure you have the right mix of knowledge and skills? (2) Why have you selected this mix of actions?

4.6.1   Ensuring the Right Mix of Knowledge and Skills

Responses were categorised into the following broad themes: recruitment; professional development; staff communication; remuneration; and systems/processes. The two most common themes that emerged were professional development and recruitment.

The most common (over 30 respondents) type of professional development was the provision of training, much of which was provided in-house: *"staff training", "assess and train staff", "train new staff", "on the job training", "individual training programmes", "… buddy training", , "…are trained in local history and culture", "upgrade computer skills", "…health and safety, first aid course", "…for the practical side of things", "…motivational training", "hazards training", "use external trainers", "use external trainers judiciously", "formal training off site".*

The second most common aspect of professional development was the practice of empowering staff: *"empowerment of people"*, *"staff empowerment"*, *"staff ownership of [the] vision – do everything themselves"*, *"...delegate responsibilities"*, *"demonstrate faith in staff ability"*, *"encourage staff suggestions and act on them"*, *"staff know what they need to do"*, *"high level of trust"*, and, *"help not supervise"*. Some responses indicated a very personal approach: *"treat [staff] as I would want to be treated myself"*, *"motivate staff through interaction, knowing them, time off, birthday celebrations"*, and *"we treat people like people"*.

Professional development for owners was rarely mentioned but a few indicated that they networked with, and sourced information from, industry organisations.

Recruitment responses from operators included general statements about their overall approach, who they preferred to employ, and on what basis.

Responses about their overall approach included: *"tried and true, robust recruitment policy"*, *"careful selection of staff"* *"identifying good staff to start with"*, *"appointing the right people"*, *"recruiting ... is hard"*, and *"be clear about the need ... and set out requirements"*.

Some operators have become quite specific about their preferred employees: *"employ different age ranges"*, *"employ family members"*, *"employ people in industry"*, *"must have previous tourism or hospitality experience"*, *"recruit from polytechnics"*, *"employ locals only"*, *"employ ex-customers"*, *"target semi retired people"*, *"employ older people"*, *"know people to recruit"*, *"recruit returning kiwis from overseas"*, *"employ single parents – more reliable"*, and *"recruit ... team players"*.

Within these groups of individuals, recruiting on the basis of personality was common although other attributes were also evident: *"personality and practicality when recruiting"*, *"mostly employ on personality"*, *"good personality"*, *"look at personality"*, *"experience is more important than personality"*, *"hire staff based on attitude and intelligence"*, *"ensure they present themselves well"*, *"assess level of ... experience"* and, *ensure [they] have key attributes"*. Interestingly only two mentioned the 'recruitment interview' and little was mentioned about how personality or the other desired attributes were assessed. Furthermore, job descriptions were only mentioned once.

Few (4) mentioned a formal induction process for new appointees and this may be indicative of the generally informal nature of small workplaces. In other words, induction takes place but the processes are not written or formalised in any way and simply take place as a way of familiarising new staff with the workplace environment and the tasks and responsibilities they have been employed to do. Whether this is satisfactory for both owners and employee was not explored. There was some evidence of systems in place for time management including flexi-time arrangements for staff, and back up plans to cover staff when needed, but these were mentioned rarely. Only a very small number of respondents indicated a formal process in place for staff appraisals or reviews and two respondents specifically stated there was no appraisal system in place.

Remuneration also received limited attention. Those respondents who did mention their remuneration policy indicated they felt they paid their staff 'appropriately or well': *"pay the appropriate rate"*, *"pay system based on skills, ability..."*, *"pay rates of $15 per hour"*, *"good pay allowances in second year"*, *"pay slightly over average wage"*, *"pay above hourly rate for industry"*, *"pay over and above other companies"*, *"pay above average wages"*,

"competitive pay rates", "better pay, regular reviews", and "staff incentives based on sales".

Remuneration was also considered to be more than dollar payments: *"time off, time in lieu, social activities for staff", "provide accommodation for staff", "[they] get offered good hours", "appoint couples [to work together]", "security offered", and "business provides good equipment, well organised".*

A small number of respondents indicated communication with their staff was an important employee practice and it was very much of an informal nature. Furthermore, while it was mostly about the business operation, staff support and ensuring some fun was had in the workplace were also features of the interaction. Comments included: *"ongoing communication between me and staff", "regular informal feedback", "have to be able to talk to staff", "continuous monthly reviews", "weekly staff meeting and involve staff in decision making", and "provide market updates to staff", "provide leadership and direction", "support of employees", "look after staff",* and *"create a relaxed happy workplace".*

4.6.2   Why this Mix of Actions

Respondents gave between one and three 'goals' or 'reasons' for selecting their mix of employee practices. The most common 'goal' for selecting the mix of employee practices listed was to increase staff retention and this was followed by what might be termed operational goals. 'Reasons' included: own experience; commonsense, and; they are effective.

Responses about staff retention included: *'to retain people", "...a core complement of excellent staff is essential", "ensures quality staff", "don't want to employ wrong staff", " wins people's hearts", "... minimise turnover", and "loyalty".* Operational goals included: *"a team approach", "provides flexibility", "flexibility in peak season", "creates a good team", "relatively easy to change things", "part of normal operation", and "[X is an] HR Manager … input has been extremely important".*

Operators' own experience and common sense were prime reasons for selecting their current mix of actions: *"experience and commonsense", "employed in the industry previously", "I knew the approach taken would work", "based on prior experience", "experience of working with people and understanding business", "responding to need", "trial and error", "know and have seen what does and does not work", "how we see it", "… an obvious thing to do", "good old kiwi ingenuity", and "obvious to get the best mix of skills".*

A small number of respondents indicated their mix of practices were effective although toward what goals wasn't clearly stated: *"it works", "most effective", "experience says this is the best", and "recognised as working for the business".*

To summarise, the employee practices used by the operators in this study tend to be informal and iterative rather than systematic and planned, although there were exceptions to this. Many operators seem to use a common sense or trial and error approach initially but as experience grows, a wisdom about what works best for their business develops. "Strategies" develop in an iterative manner and change as the needs of the business, or the labour market, change. This confirms what is well known anecdotally.

Whether the responses typify the range of processes used by other tourism operators is perhaps a moot point. Certainly little was mentioned about skill needs analysis, job

descriptions and the interview processes. The question asked, however, may have been too general; more specific questions on the different facets of the human resource function would certainly have delivered a more comprehensive understanding of the processes.

In terms of exploring links between employee practices and financial yield, the responses here give little indication of any link. This is not unexpected as there is little evidence in the international literature that there is such a direct association. Indeed, very few studies have attempted to measure the impact of [human resource strategies] and high performance work practices on the bottom-line performance (Turner, 2004). Carmeli and Schaubroeck (2005) undertook research to explore how leveraging human resource capital (HR Capital) enhances the performance of commercial organisations and found that while HR Capital was significantly related to service performance, it was not related to financial performance. This may be an area for more in-depth exploration in the future; tourism specific research would be most advantageous as much of the research in this area to date has focused on large organisations, many from the manufacturing sector.

4.7   Market Research

Twenty four (37%) respondents indicated they do not carry out market research to identify their potential customers. Of those who do, the most common method of information gathering is talking with customers (14 respondents). A small number (3) of respondents undertake customer surveys, keep their own statistics (2) or refer to their visitor book for information (2).

Nine (13.8%) respondents seek information from other sources within the industry including: *"worked in industry so know the trends", "talk with those who are here", "review and rating mechanism from industry associations", "attendance at industry road shows", and "I know the industry, I read everything"*.

Nine (13.8%) respondents use a range of official statistics for their research. What was most notable about this group of respondents was the wide range of information sources used by each operator: *"... years experience, constant monitoring of visitors, how they come, and agency stats", "review information out of Tourism New Zealand", "visitor surveys, donor database, analysis of business metrics", "Statistics New Zealand reports, MANZ membership, RTO news", and "internet, travel mags, Tourism New Zealand, and HANZ"*.

Four (6.2%) respondents simply tested the market and another three (4.6%) either based their actions on what they liked, their gut feel, or started the 'business' as a hobby.

The main conclusion here is that very little formal market research is undertaken and much of what does occur utilises internal information. Only a few respondents utilise the market research available from government agencies. For operators who aim to be customer and market driven, they will find a broader approach to their market research will be helpful. This may be an area where some business support is provided to operators, in terms of knowledge about how to do market research and also about the provision of up to date market intelligence.

4.8   Communication with Customers

Business operators were asked how they communicated with their potential customers and how effective they thought their chosen methods of communication were. The words 'communication with' were used rather than 'promote to' or market to' to ensure a broad response; it was acknowledged that there tends to be differing views on what is 'promotion' and what is 'marketing'.

A broad range of methods for communicating with customers was presented by respondents. The top three methods were: own website2 (mentioned 48 times), advertising3 (47), and brochures (42) (Figure 5). Less commonly mentioned methods included: third parties (14), having information in information centres (probably brochures but this was not stated in the responses) (14), and a presence on other business web sites or having links to other websites (12). Other methods with more than two mentions included using databases or contacting customers directly (8), word of mouth (6), networking (6), television (5), media releases (3) and sales (3).

Figure 5
The most common methods of communicating with customers
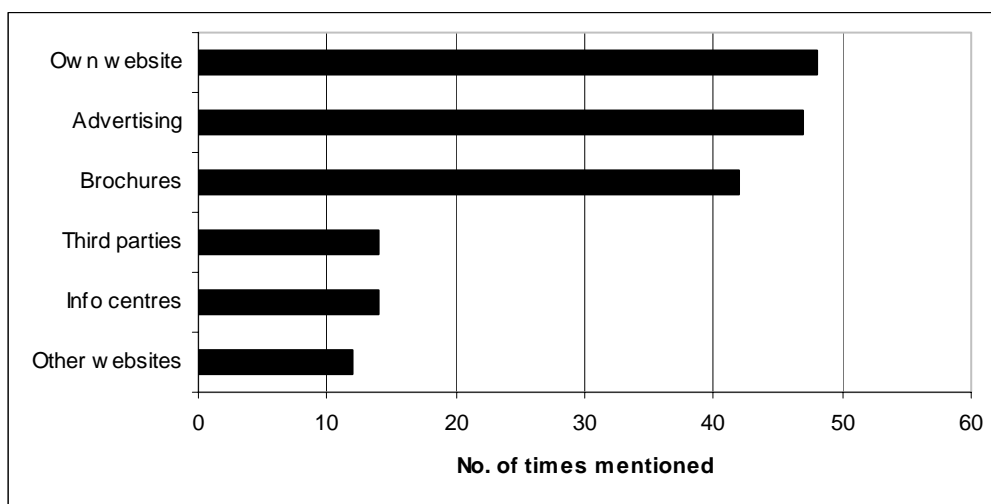
Eighty six percent of those stating that they use their own or other business websites to communicate with customers perceived it as a 'very effective' or 'effective' method of communication (Figure 6). While some (14%) were 'undecided' no respondents using this method of communication perceived it as 'ineffective'. Some operators indicated that internet technology, both their web sites and email, provided the opportunity for them to develop a relationship with their customers before they arrived [for their experience]. A corollary to this is that it also provides an opportunity to stay in contact after the customer has visited although few mentioned this.

The information collected does not provide sufficient detail to explore which 'other websites' were the most commonly used or the most effective. This could be an area for further research

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2   Where a respondent simply replied 'website' this has been interpreted as being their own business website.
3   'Advertising' included advertising in directories such as the AA and Jasons Guides, and in magazines or newspapers.

in the future, given that business operators appear to be investing considerable time and money into website communication.

Figure 6
Perceived effectiveness of websites as a form of communication with customers
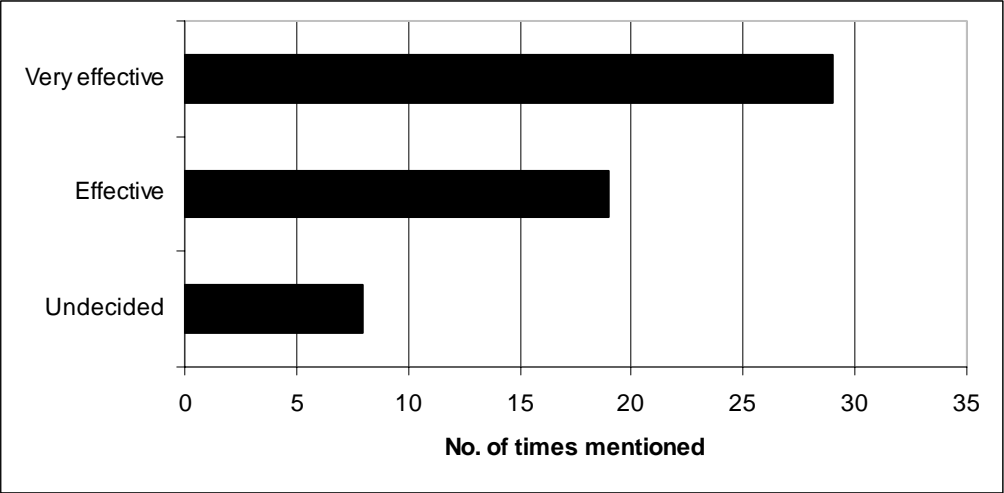
Advertising in directories (e.g., AA, Jasons, BBH, and various B&B directories) was mentioned 30 times, and 22 (73%) of these users thought this to be 'very effective' or 'effective'. Six were 'undecided' and two made no specific comments. Advertising in newspapers (mentioned 5 times) and on billboards (2) were seen to be 'very effective' or 'effective' and of those who use magazine advertising (3), two perceived it as 'very effective' or 'effective' and one as 'undecided'. For all kinds of advertising, 33 (73%) users found it to be 'very effective' or 'effective' (Figure 7).

Figure 7
Perceived effectiveness of all kinds of advertising with customers
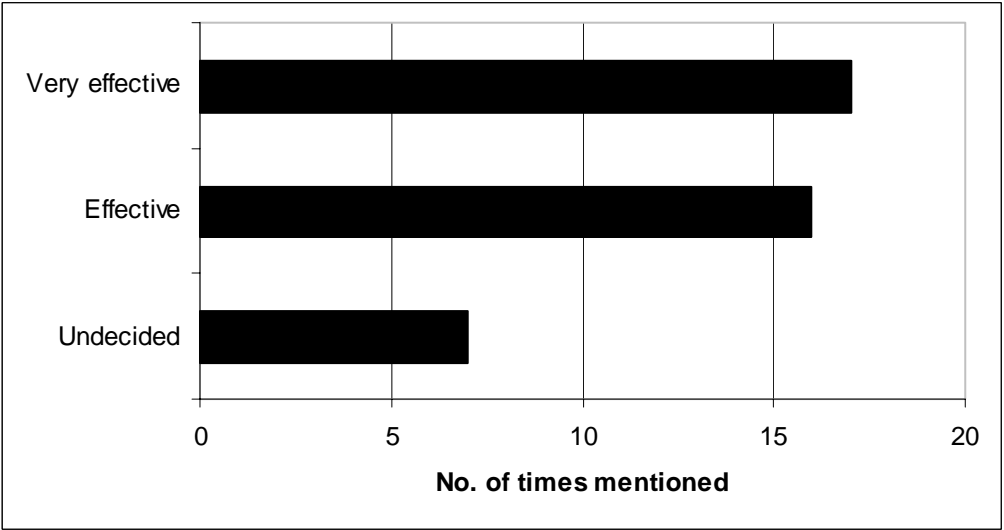
The use of brochures was also perceived by 30 (73%) users to be 'very effective' or 'effective' (Figure 8). Nine users (22%) were 'undecided' about their effectiveness and two (4%) considered them to be 'very ineffective' or 'ineffective'. Of the top six methods of

communicating with customers, this was the only method that was considered ineffective by any of the users.

Figure 8
Perceived effectiveness of brochures as a form of communication with customers
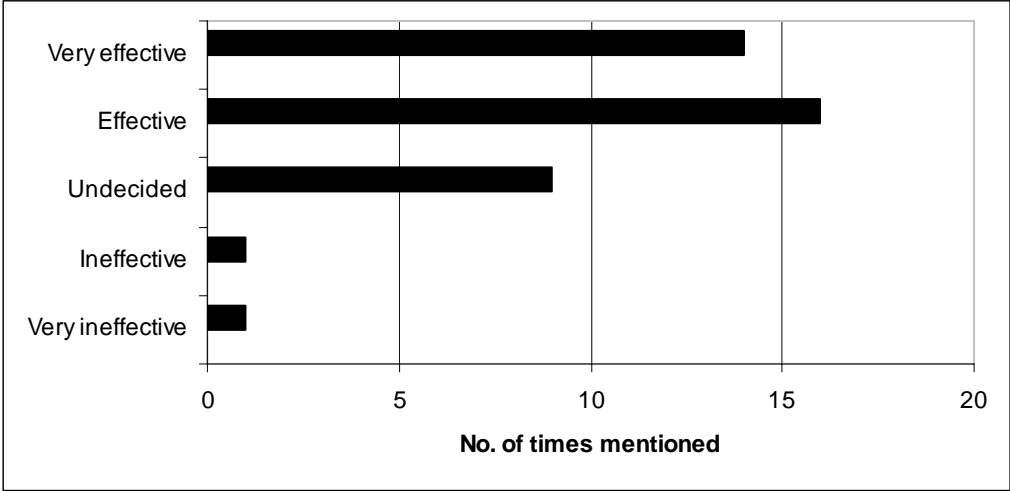
Each of these three methods of communicating with customers has presented a slightly different profile in terms of perceived effectiveness. A caveat here may be that respondents may have felt less inclined to suggest that they are using a method that they perceive as ineffective. Furthermore, the bases on which respondents developed their perceptions were not explored; operators were not asked how they monitor the effectiveness of each method. Given that operators want to spend their marketing dollar wisely this may be an area worthy of further research. Each of these methods could be explored more deeply to establish why some websites work better than others, why advertising is working for some and not others, and why brochures may be receiving more question marks than other methods. In addition, methods for monitoring effectiveness could be explored and good practices shared.

Information centres and third parties were used by nine respondents and in both cases, seven (78%) found these to be 'very effective' or 'effective'.

Of the eight (12.3%) respondents who contact customers directly (presumably utilising an established database or at least a list of past or potential customers), seven (88%) found the method to be 'very effective' or 'effective'. This level of perceived effectiveness exceeds that received for website communication, although the number of users is considerably smaller. While results suggest this relates to communicating primarily with New Zealand customers, more business operators targeting the domestic market could explore this as an option.

It also raises the question of whether this option could also be explored more for international visitors. Anecdotally, some accommodation interviewees did indicate a higher level of repeat business from international visitors than they expected. The extent to which these operators continued to communicate with their customers after the initial visit, rather than relying on the first visitor experience to bring about a repeat visit, is unclear. A highly satisfying visitor experience would certainly be a pre-requisite to a return visit but additional strategies could be adopted to encourage another visit or to help in the process of word of mouth promotion.

Interestingly, six respondents indicated that they used 'word of mouth' as a form of communication yet how they sought to achieve this was not made clear. Developing databases for direct contact with potential and past customers may well be one way that the process of word of mouth can be enhanced. This is certainly common practice in many other industry sectors.

The findings here do not tell any particular compelling story in terms of 'what works best'. Certainly operators are embracing internet technology and feel on the whole that it is proving effective. Some may be starting to question the use of brochures but as suggested a more detailed exploration of how brochures are used would be useful before concluding that their 'shelf life' is up. For those operators looking to achieve a higher level of control over who comes to them may find that adopting direct marketing methods is worth exploring.

Furthermore, the effort and cost associated with website development, maintenance and enhancement requires a level of return at least equal to that achieved with the more traditional styles of communication. Yet many operators are also continuing with the traditional styles of communication suggesting that overall communication costs have increased. Managing these costs so that a 'blow-out' is not experienced is essential. A more structured approach to communication (e.g., a Marketing or Communication Plan and Budget) is one way that the risk of budget 'blow-outs' can be managed.

4.9   Pricing

Respondents were asked on what basis they set their prices and they could indicate up to three factors. All but eleven respondents considered a combination of factors. Responses were categorised into main themes: competitiveness; cost; customer; rate of return; other (Figure 9).

The most common responses were related to 'competitiveness' (60 mentions): *"competition", "competitors", "competitor comparisons", "competitive pressures", "relative to others of a similar standard", "based on prices in the AA book", "competition driven", and "don't want to price off the market"*.

Figure 9
Factors most commonly cited for setting prices

No. of times mentioned
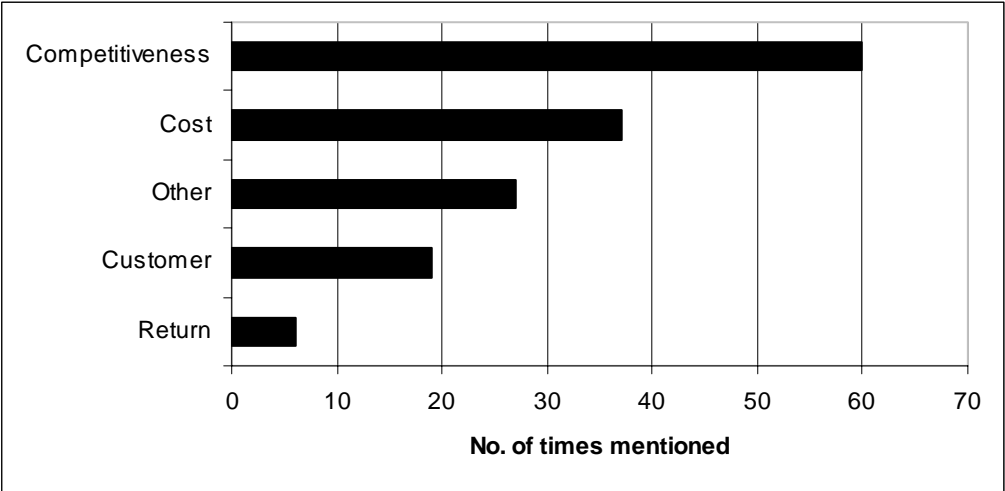
Cost (37) was the second most common method. Responses included: *"cost of operation", "cost of tours", "bottom line costs", "running costs", "cost of materials", "dictated by cost of supplier", "covering fixed costs", "cost plus for food", "cost plus for beverages",* and *"cost of running the complex".*

Considering the customer (19) included responses such as: *"as much as the market can handle", "what we think the market will stand", "what the market will bear", "we want to exceed customer expectations", "would rather guests go away knowing it was value for money", "how much they are prepared to pay but want to keep price under $[X]", "desired occupancy level", "offer good value for money", "what people are willing to pay",* and *"need to increase volume of visitors".*

Only a few (6) indicated that they consider their desired rate of return. Responses included: *"grow profit percentage", set to maximise my returns but ensure the customers don't go to the competition", "rate of return desired",* and *"percent return".*

Other responses included: *"uniqueness", "previous owner's price", "Qualmark initially had a standard – went with that", "historical information", "have a range to enable response to exchange rate movement and take account of commissions", last year's prices", "keeping in line with inflation", didn't want to be too expensive...", "own research – stayed in a few places to assess", "reactionary to what industry is doing – if a dip in the economy we respond", "personal comfort with prices", "guided by direction from agents",* and *"range of rates for length of time".*

Of all 65 respondents, 34 (52%) mentioned they considered cost as a factor in their price setting and 32 (48%) did not. Given that cost is a key component of Financial Yield, further analysis was undertaken to establish if consideration of cost as a factor in price setting did indeed have the impact on financial yield as one would expect. Businesses with financial yields within the -30% to +30% range were separated into financial yield quartiles (see Chapter 5 for more details on quartiles) and further divided by whether or not they considered cost in their price setting (Table 11). Notably, 14 (48%) of the 29 operators who consider cost in price setting had financial yields in quartile 4 (High yield), while 10 (38%) of the 26 operators who do not consider cost had financial yields in quartile 1 (low yield).

Table 10
Consideration of cost as a factor in price setting and financial yield

Financial yield	Cost considered	Cost not considered	Total
Quartile 1	2	10	12
Quartile 2	6	4	10
Quartile 3	7	6	13
Quartile 4	14	6	20
Total	29	26	55

A Chi-Square test of the results in Table 11 revealed statistical significance (P=0.031), indicating that consideration of cost as a factor in price setting is associated with higher financial yields.

While the sample size in the above analysis is small (55 valid financial yield results) the results resonate with anecdotal reports that some operators do not have well thought out

pricing strategies. The message here is unequivocal in terms of achieving a higher Financial Yield; costs are an essential factor to consider when pricing one's products.

4.10   Comparing Business Practices

In response to the question whether operators compare their business practices with the business practices of other businesses, 49 (75%) of the 65 respondents indicated they did some comparisons or were at least trying to do some. The main themes that emerged in terms of how this was carried out were: informal observation; networking; competitors; and benchmarking. A small number (6) indicated they use official data such as those from Statistics New Zealand or the Hotel Association of New Zealand. Four respondents simply indicated they don't compare practices.

Responses that were categorised as 'informal observation' (25 responses) included: *"informal", "informally through members", "general sense but not specific", "go through websites", "customers", "bar patrons", "guest comments in guestbook", "book reading", and "when we stay at other places we look at everything"*.

While 'networking' (22 responses) might also be considered informal, responses suggested a slightly higher degree of organisation was required to achieve the outcome: *"networking", "network of 15 operators", "networking with other businesses", "...clusters", "coffee mornings", "conferences", "industry contacts", and "[Association] meetings"*.

The next most common kind of response was specifically looking at the competition (20 responses): *"comparing competitor business volumes", "comparing occupancy and rates at other [businesses]", "visiting competitor sites", "marketing collateral comparisons", "mystery shop", "visit competitors", "observation of competitors", "websites", "others' brochures", "scan wotif", and " yellow pages"*.

Some respondents indicated they took a reasonably formal approach to benchmarking themselves against others (12 responses): *"benchmark with friendly [businesses] in other areas", "compare key ratios with similar institutions", "Qualmark feedback", "use international networks for benchmark", and "via the local Chamber of Commerce"*.

More than 90% of methods for comparing with other business practices were considered 'very effective' or 'effective'.

The main finding here is the informality of methods used to compare business practices. On the whole, operators seem to take a fairly relaxed approach to this. While the high level of effectiveness accorded to these methods suggests operators are happy with what they are currently doing, the methods used might be somewhat challenged when a greater depth of understanding or breadth of detail is needed for a more comprehensive picture. That 75 percent of respondents do carry out some kind of comparison, however, suggests operators see value in the practice.

4.11 Energy and Water Resources

Operators (59)[4] were asked if they evaluated energy and water use in their business. Seventy six percent of respondents indicated they did such an evaluation. The most common method for this evaluation was looking at the accounts, invoices or costs: *"accounts"*, *"monitor invoices and compare with budget"*, *"look at invoices and monitor wastage"*, *"monitor invoices and turn off unused appliances"*, and *"monitor invoice and institute energy reduction"*.

Many do a combination of monitoring activity as well as the resultant costs: *"odometer readings and fuel monitored"*, *"fill up every day, record data on worksheets, look at receipts, know the costs"*, *"cost to run [vehicle] per trip"*, *"know water needed, monitor vehicle performance by kilometres per litre"*, and *"energy per unit used annually, gas checked for rebate allowance, water metre and demand"*.

Other approaches included: *"efficiency is monitored through business metrics"*, *"negotiated a weekend rate"*, *"daily water usage [known]"*, *"careful driving and sparing use of air-conditioning"*, *"compared electricity companies but difficult to compare"*, and *"monitor power usage"*.

Half of the respondents indicated they had evaluated the cost effectiveness of alternative resources or alternative ways of using their resources. The most common goal was for improved heating at a better price. These included looking at: heat pumps, open fires, gas usage, coal usage, diesel usage, and double glazing. Solar power was investigated by three respondents as was alternative vehicle fuels (bio-diesel, diesel versus petrol, other hydrocarbons). The presence of geothermal energy in Rotorua provided an alternative not available in Christchurch.

Only 17 respondents indicated they had recently or were planning to introduce alternatives: *"power saving light bulbs, put in water restrictors on the showers, and use Energy Billing Service to check we have the cheapest source of power"*, *"put in gas oven and use open fire"*, *"improved insulation, heat pumps, energy saving light bulbs, gas fire"*, and *"changed thermostats in hot water heaters and thermal drapes"*.

Improved efficiency was an important goal and some operators had changed to gas to achieve this: *"change to gas water heating"*, *"...will put in a gas hob"*, *"recently changed to gas heating..."*, *"install more gas hot water heating"*, and *"gas for the dryer"*.

Those who had investigated alternatives but had no plans to introduce these into the business mostly gave no reason but a few did so: *"may look at air-conditioning for the new development"*, *"aesthetically not pleasing"*, *"alternatives were too expensive"*, *"have a dream of experimenting with other energy sources"*, *"heat pumps not deemed suitable"*, *"would consider if cost effective"*, *"not economic"*, *"will change to bio-fuels as soon as available"*.

Findings suggest that monitoring of energy and water usage and costs is wide spread. Half of the respondents have evaluated alternatives and a considerable number of these have invested in improved energy efficiency measures. The introduction of simple measures such as power

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4. Those businesses who participated in the test week in Christchurch were not asked this question.

saving light bulbs does not appear to be widespread as yet with only a few operators have made the change.

4.12 Financial Business

This section presents the results from a number of questions about matters of a financial nature: financial performance measures; holding of assets; financing of assets; and financing of business expansion.

4.12.1 Financial Measurement

The most useful measures that business operators use to measure the financial performance of their business were variances on the themes of: profit; income; costs; cash flow; and budget plan (Figure 10). Notably, most operators use more than one measurement for assessing their financial performance.

Figure 10
The most useful methods of measuring financial performance
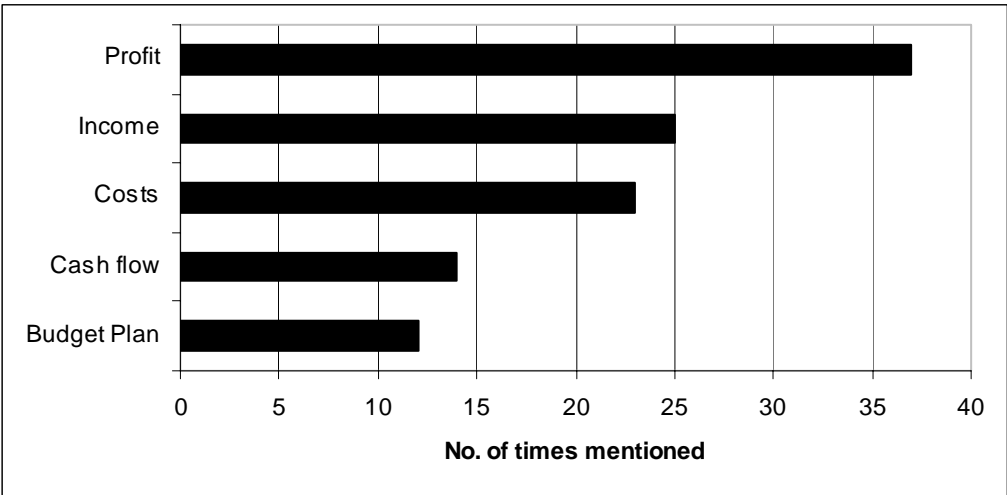
Profit responses (37 mentions) included: *"profit", "gross profit for each [product or trip]", "EBITDA", "NPAT", "NPBT", "annual profit", "profit and loss", "P&L", and "end of year results"*.

The theme 'income' (25) covered responses such as *"revenue", "sales", "turnover", "daily take", "returns and commissions"*.

'Costs' (23) included: *"expenses", "costs", "direct costs", "daily cost of operation", "expenditure especially wages", "wages", "vehicle utilisation", "overheads", "sales ratio", and "debt costs"*.

'Cash flow' (14) was specifically mentioned as *"cash flow"* and 'budget plan' incorporated such comments as: *"adherence to a budget", "analysis of year to date income and expenditure versus budget", "comparison to forecasts", "monthly fully adjusted accounts", "annual budget performance", "quarterly reports", and "monthly variances"*.

Few operators mentioned financial ratios and none mentioned financial yield. The responses received suggest operators prefer to focus on simple financial measurements that are easily accessible in their accounts and easily understood. Yet "while measures such as revenues and profitability reflect the current state of the venture, they do not necessarily enable the prediction of its ability to survive in the long run ….. profitability should be considered in conjunction with other financial and non-financial measures that indicate both performance in the short run and the business's strength and ability to thrive in the long run" (Birley and Westhead, 1994, in Haber and Reichel, 2005:260).

4.12.2 Assets, Expansion and Types of Funding

Business operators could specify up to five types of assets that they own or lease. Most respondents summarised their asset types with two or three categories. The most common types of assets were property (land and buildings), vehicles (cars, vans, buses, and boats), equipment (plant and equipment, office equipment, rafts and camping gear), chattels, and leases. Other assets mentioned more than once were goodwill, IP, and infrastructure.

All respondents answered the question on how current assets were funded. The assumption underlying this question was that assets were accumulated over time rather than being purchased or developed as a single initiative. The most common type of funding (Table 11) was commercial debt with 42 mentions (primarily bank debt but some respondents were unspecific). Two respondents mentioned their suppliers were a source of commercial debt. Operational cash flow was mentioned 26 times and personal equity was mentioned 24 times. Debt or equity from family and friends was mentioned on seven occasions. Twenty eight (43%) respondents indicated that they had used more than one type of funding for the assets they currently hold.

Figure 11
The most common source of funding for assets currently held by businesses
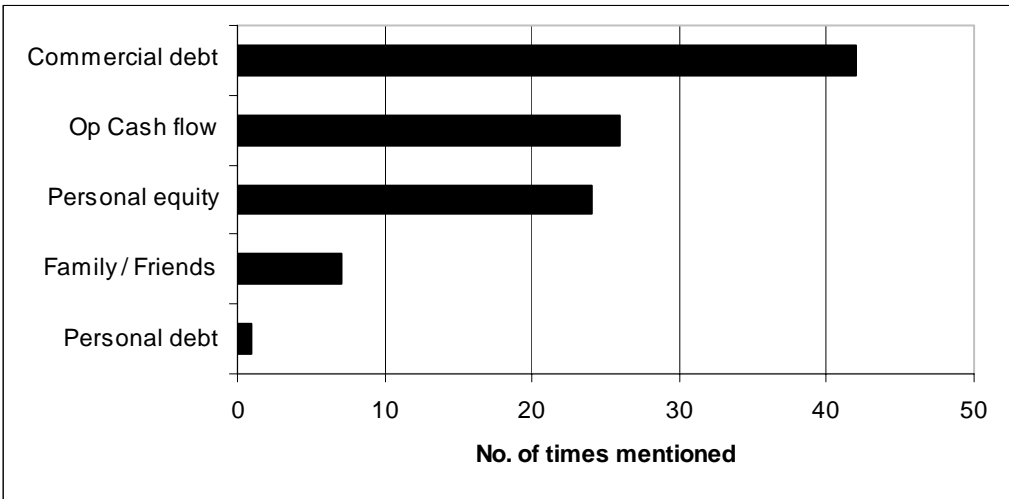
Forty nine (75%) operators indicated they had expansion plans for the next one to five years. Expansion in this context included product expansion, market expansion, additional or improvements to land and buildings, and new equipment and technologies. The main themes emerging from the responses were product development (mentioned 29 times), a purchase of some kind (21), upgrading of assets (16), and market development (9). Sixteen (25%) operators had no plans to expand in any way.

Responses about product development included new or improved facilities, improved products, and new activities for visitors. Responses of a purchase nature included the purchase of more accommodation units, other businesses, other properties, vehicles, equipment, and new premises: Upgrading covered improving the overall state of the property through landscaping or painting, upgrading facilities, refurbishment of accommodation, and improving vehicle fleets. Note, more explicit details of expansion plans have not been presented here for confidentiality reasons.

Fifty two (80%) operators responded to the question about how expansion would be funded. Three of these had indicated they had no expansion plans but responded perhaps on a hypothetical basis, or their plans were not yet well developed, or they did not want to share their plans with the researcher at that time. Given that part of the focus of the question is on attitudes to types of funding, their responses have been included here.

The most common (32 mentions) funding source by far was cash flow (Figure 12). The second most common source was debt (18). In this case, debt was not specified as either commercial or personal debt. Other sources received little attention: equity was mentioned 4 times and grants twice. Overdraft, shareholder advances, sponsorship, joint venture, acquisition, investor, and sale of another asset were all mentioned once. Two were 'undecided as yet'. Some respondents indicated they were considering more than one type of funding and in total 66 responses were given by 52 respondents.

Figure 12
The most common source of funding for expansion
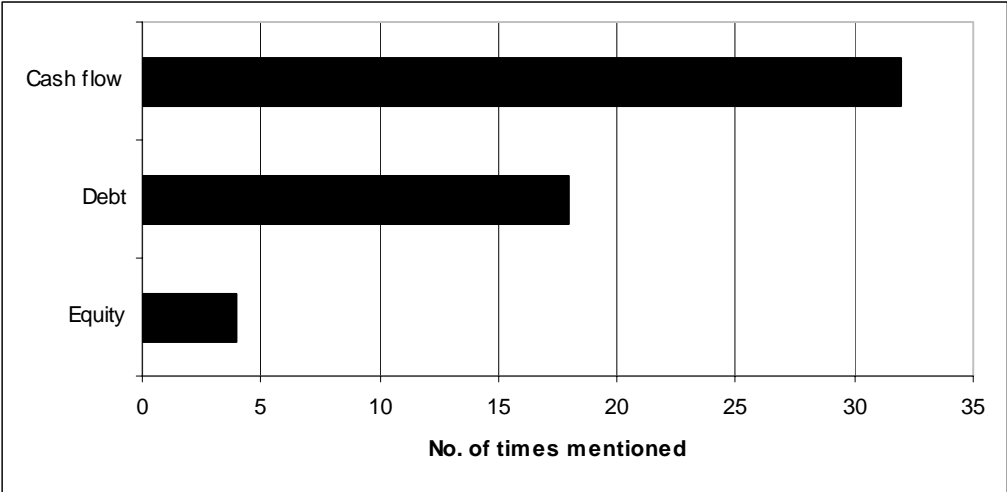
A comparison of past and future funding types presents interesting results (Table 12). Two thirds (66%) of respondents have utilised debt to fund their assets at some stage in the past. This compares with only 35% of respondents who plan to utilise debt for their expansion plans. A higher percent of respondents (62%) plan to use cash flow than previously (40%).

Table 11
Past and Future Approaches to Funding of Assets and Development

Type of funding	Current assets. No. of times mentioned	Current assets. Percent of respondents N=65	Expansion. No. of times mentioned	Expansion. Percent of respondents N=52
All Debt	43	66%	18	35%
Cash flow	26	40%	32	62%
Equity	24	37%	4	8%
Other	7	11%	12	23%
Total mentions	100		66	

One explanation for this may be that a higher level of investment is generally needed when one starts a business (purchase or start-up) and with no current business cash flow available, debt may be the main option open to operators. Second, higher use of debt for current assets may be a reflection of the differences in time frames our questions implied. Responses about financing of current assets include all investments made over the lifetime of the current business, and utilisation of debt at some stage might be expected. For expansion plans we asked operators to consider a one to five year timeframe. Furthermore, expansion plans include product and market development, neither of which may have been considered in the question about current asset financing.

Whatever the explanations, the results suggest a preference for cash flow over debt for business expansion. The findings give some support to our earlier study of small tourism business owners that found 73% of respondents 'agreed' or 'agreed strongly' with the statement that 'It is best to avoid debt as much as possible' (Lincoln University, 2006:46). These finding are consistent with the pecking order theory that proposes that SMEs use internal sources of capital first and will use external sources only if internal sources are inadequate (Gregory, Rutherford, Oswald & Gardiner, 2005:382).

The findings led to an analysis of a small number (N=7) of the businesses that indicated they were in the 'growth' phase of the business lifecycle and had high end financial yields (i.e., they were in quartile four). Two businesses from the activity, attraction and transport sectors and one from the accommodation sector were selected (only one accommodation business fitted the criteria). All but one of the businesses was considering cash flow for their expansion plans. One business was planning to utilise debt and / or an external investor. The financial results (for the year ending 2005) presented by this latter business indicated only a small profit compared to the other businesses in the study. This may imply insufficient retained earnings for expansion plans and therefore external funding may be deemed the next best option.

The rationale behind the choice of funding source was explored further with the question "Why have you chosen these sources of funding for the expansion". The most common theme that emerged was that the selected funding option was considered financially advantageous (10 mentions): *"most cost effective", "leasing too expensive", "interest rate going up", "most economic", "least costly", "depends on cost", and "cheapest".*

The second most common theme was one of 'choice'. Some operators felt they had no choice (8 mentions) and others felt it was an obvious choice (7 mentions). The latter included statements such as: *"most appropriate", "best option", "common sense", "main option", and "appropriate for business".*

Six operators (9.2%) expressed a high level of comfort over their selected funding source (which included debt, overdraft, cash flow, and equity): *"good working relationship with the bank ... better to use bank money than my own"*, *"banks provide good service and I have a good relationship with my bank"*, *"cash flow available [and] cost of capital well and truly a sound proposition"*, *"conventional, have a banking background and understand it"*, *"comfortable with this approach [overdraft] "*, and *"philosophy – spend when there is money to spend"*.

Five operators (7.7%) were very explicit about not wanting debt: *"do not want debt"*, *"uncomfortable with debt"*, *"saves the hassle of worry about having money on loan"*, and *"preference for no debt"*.

Other reasons given included a way to: manage risk (mentioned 4 times), remain independent from banks (3), and manage cash flow (2).

To summarise, there are both financial reasons and personal preferences for choosing a particular funding source. Financial reasons are mostly about the economics of the options. The latter are about the extent of choice, the level of comfort, or the sense of control the operator has with a particular funding option.

4.13   Useful Tourism Information

Nearly one hundred and eighty responses were received in answer to the question about the tourism information accessed by business operators. The most commonly mentioned types of information were 'newsletters' (mentioned 57 times) and statistics (32 times). Newspapers, websites and magazines received between 10 and 11 mentions each. Networking, research and workshops received only one or two mentions each. Forty five types of information were not specified as operators stated the source of the information rather than any one type of format.

Of those who access newsletters, 48 (84%) felt they were 'useful' or 'very useful' for use in their business. Three (5%) found them 'not very useful'. Six (11%) were 'undecided'. Twenty three (72%) of the 32 operators using statistics felt they were 'useful' or 'very useful', two (6%) were 'undecided' and seven (22%) found the statistics to be 'not very useful'.

Assessing the source of the information on the basis of the source organisation showed that information from the regional tourism organisations was mentioned most often (Table 13). Twenty eight (68%) of the 41 who mentioned the RTO found their information 'useful' or 'very useful', seven (17%) were 'undecided', and six (15%) found it 'not very useful'. Tourism New Zealand (TNZ) information was also considered generally useful with 17 (74%) of the 23 who mentioned it finding it 'useful' or 'very useful'; three (13%) were 'undecided' and three (13%) found the information to be 'not very useful'.

Table 12
Usefulness of tourism information on the basis of the source organisation

	Not very useful	Undecided	Useful	Very useful	Total
RTO	6	7	21	7	41
OTHER	1	2	27	10	40
TNZ	3	3	15	2	23
TIA	3	3	7	2	15
STATS	1	0	6	5	12
TMT	1	1	6	3	11
MANZ	3	0	3	2	8
PRESS	0	0	7	0	7
TOURISM ONLINE	0	0	6	1	7
ATHOME	0	0	3	0	3
DOC	0	0	2	0	2
INFO CENTRES	0	0	2	0	2
QUALMARK	0	0	0	2	2
I-SITES	0	0	1	0	1
HANZ	1	0	0	0	1
BUS&COACH	0	0	0	1	1
TRENZ	0	0	0	1	1
Total	19	16	106	36	177

Operators were also asked what tourism information they would like to have access to. Fifty eight responses were received; ten (17%) of these specified nothing was wanted and two (3%) 'Didn't know'. The remaining responses covered a range of interest areas with few specific areas drawing large support (Table 14).

Table 13
Information respondents felt would be useful for their business

DATA	Times Mentioned
In-depth information	17
Market share	1
One website	1
Up to date	1
Not specified	2
Total	*22*
BENCHMARKING	
Financial	2
Performance	3
Wages	1
Web site effectiveness	1
Total	*7*
MARKETING	
Opportunities	5
Web site links	1
Total	*6*
OTHER	
Government funding	2
Consulting services	1
Training	1

Infrastructure	1
IT	1
Local info	3
Total	*9*

The most notable was the interest in having access to more in-depth information: *"who brings tourists into town", "people flows, breakdown of [tourist] spend and what they spend it on", "what percent of FITs are staying in this kind of accommodation", "what accommodation are visitors wanting", "traveller data – demographics and expenditure", "dissection of visitor trends", "willingness to pay for accommodation", "[regional] specific data", and "tracking itineraries of visitors".*

The second type of information wanted was some kind of benchmarking that enabled business operators to measure themselves against similar businesses (7 mentions): *"financial benchmarking in our sector, some degree of environmental information – e.g., fuel consumption", "more detailed information on performance of small operators/sectors to compare reasons for growth/decline", "industry standards for guide on remuneration", and "information that improves the efficiency and effectiveness of websites".*

The questions on the value of current tourism information and the kind of information sought did not identify any strong needs from the operators. The feedback here on in-depth data and benchmarking does however provide a starting point from which further discussion with stakeholders can take place.

4.14   Useful Business Support

There were a total of 123 responses to the question on the type of business support utilised by operators. Responses included support from professionals, organisations, seminars and networking. Accountants and membership of various organisations were mentioned most often and both of these received a high degree of support in terms of usefulness (Table 15). Seminars and other professionals (mentors, lawyers and HR specialists) also received some support.

Table 14
Usefulness of business support utilised by tourism operators

	Not useful at all	Not very useful	Undecided	Useful	Very useful	Total
Accountant	0	2	3	10	15	30
Membership	1	1	2	18	1	23
Other	0	0	3	6	6	15
Seminar	1	0	0	5	7	13
Mentor	0	0	0	5	6	11
Lawyer	0	0	1	4	4	9
HR	0	0	0	4	3	7
Networking	0	0	0	1	4	5
Govt n. spec	0	1	0	2	0	3
Qualmark	0	1	0	1	0	2
Total	2	5	9	56	46	118

Respondents were tentative about their wish list for business support measures. Twenty four (44%) respondents did not want any type of business support. This may reflect the strong sense of self sufficiency and independence sought by business owners, also a finding in the Small Business Survey undertaken in 2005 (Lincoln University, 2006:14). Moreover, business operators did make mention, anecdotally, that they were simply too busy to attend anything that takes them away from their place of business.

The most notable of themes was an interest in mentoring and to a lesser extent marketing (Table 16).

Table 15
Business support respondents felt would be useful for their business

NONE	
No additional support wanted	24
MENTORING	
General	5
Business planning	1
Marketing	1
Tourism specific	2
MARKETING	
Distribution	1
Effective marketing	4
Local govt support	1
Market intelligence	1
BUSINESS DEVELOPMENT	
General	1
Seminars	1
Targeted	1
HR	1
SYSTEMS	
General	1
Hotel performance	1
MYOB	1
Software	2
OTHER	
Funding	4
Research	1

The results here reveal a low level of interest in additional business support over and above what is currently provided. It is acknowledged, however, that being asked to identify business support options from a blank slate can be challenging. Providing potential business support options from which operators could choose one or more kinds of support may have delivered a more comprehensive and informed result. Ultimately, a business support programme that holds real value for its client group will be deemed attractive and be taken up by operators.

4.14.1 Innovation

The interview team recognised at the outset the importance of innovation for improved business performance. Yet it was also recognised that the understanding of what is 'innovation' is still evolving. Furthermore, there was concern that business operators may still hold the narrow view that innovation means 'invention' or that it is what occurs in R&D departments of larger organisations and doesn't apply to them. It was decided therefore that a

range of responses across the interview questions would be considered within the context of 'innovation' in its broadest sense and an attempt made to demonstrate the extent to which small and medium tourism businesses innovate.

A subsequent review of recent reports on innovation assisted in the process of defining 'innovation' beyond earlier definitions that favoured technological inventions and focused on research and development (R&D) expenditure.

The Ministry of Economic Development defines innovation as *"the dynamic process of creation that involves the search for, experimentation with, and development and adoption of new and better products, services, processes and organisational mechanisms."* (Ministry of Economic Development, 2002:87).

The Baldrige National Quality Programme describes innovation as *"making meaningful change to improve an organisation's products, services, programs, processes, and operations and to create new value for the organisation's stakeholders. Innovation should lead ... to new dimensions of performance"* (Baldrige National Quality Program, 2006:3).

The Business Council of Australia defines it as *"the application of knowledge to create additional value and wealth... does not necessarily involve technology and technological knowledge... is not invention."* (Business Council of Australia, (2006:6)

The quotations suggest a number of different components to innovation: (1) an effort to create something that is new or improved; (2) the application of knowledge, and (3) it should result in improved performance, value or wealth.

Responses to our questions about actions contributing to the success of the business, strengths, barriers, employee practices and communication practices, and why these actions were taken, were reviewed within the above context in an effort to provide some insight into the nature and extent of innovation within the tourism businesses within this study.

First, we found a multitude of responses that suggested continuous improvement was most common: *"continuous improvement in customer experience"*, *"incremental improvement"*, *"keep updating"*, *"enhance property and garden"*, *"upgraded some rooms"*, *"expanded the complex"*, *"continue to invest in staff"*, *"improvement to food"*, and *"refinement of product"*.

Furthermore, responses about recent actions or plans to develop new products and new markets were also common: *"product development"*, *"new products into operation"*, *"new exhibits or new products is a key priority"*, *"additional services"*, *"interpretation panels introduced"*, *"more opportunities for visitors to interact with animals"*, *"give people a reason to come back"*, *"wow factor"*, *"expand marketing"*, *"link to off-shore agents"*, and *"network a bit more... perhaps outside the industry"*. The need for attractive and effective websites also provided many opportunities for the application of new ideas as well as the need for ongoing improvements.

In terms of how well operators link their developments with improved performance, value and wealth, it is apparent that innovations are generally aimed at improving both intermediate goals as well as overall business goals.

Improved performance in intermediate goals included: *"improved awareness and quality of facilities"*, *"provide competitive advantage"*, *"preservation of the asset"*, *"word of mouth is*

happening", "easier to manage", "import skills", "working directly with agents has helped build the brand", and "the website identifies the business uniquely".

Improving value and wealth of the business also featured often: *"guests think the dedicated computer is wonderful ... added value", "improvements in results", "reduced costs", "hopefully improve the business", "increased sales drive profit", "enhance value of the business with saleability in mind", "the strategic plan will maximise income", "increase market share", "assisted in growing the business", "increasing sales and better yield and competing in a crowded market", "better customer value", "boosted website profile ... provides a third of business", and "investing in the business is important".*

The responses received do not provide sufficient data to explore fully the knowledge on which these innovations are based. It would however be a fair summary of the overall findings of this research to suggest that operators commonly use a mix of common sense, experience, and trial and error for many of their decisions. They also consult with professionals, particularly accountants, industry organisations and they network with others in their sector and the broader industry.

In summary, responses have shown that many operators in this study are introducing new and improved elements into their business, making improvements to other internal processes as well as to overall business results. Furthermore, the usefulness of external information, business support and networking suggest that new, as well as old, knowledge may be applied to innovative activities. Yet the lack of market research undertaken by business operators and the small uptake of government tourism research suggest that opportunities do exist for operators to incorporate additional new knowledge into their decision making.

The survey of small tourism businesses undertaken in 2005 found that at best, only about half of business operators had introduced new or significant improvements in the four business areas of products, operation, managerial processes and marketing (Lincoln University, 2006:20). The rather better results from this interview research of SMEs suggest that innovative activities may be more a characteristic of larger (medium) enterprises. Given that innovation is recognised as an important factor in sustainable businesses there is good argument for all business operators, no matter the size, to create an environment where innovative activities can occur.

Much has been written about innovation in New Zealand in recent years in terms of both definition and performance. More recently the discussion has expanded to include a focus on how businesses "manage and organise people at work … to create the conditions in which innovation and knowledge creation can flourish" (Harvey, 2003). Harvey concluded that New Zealand managers have generally not proven to be particularly good at designing work and managing people to produce innovative outcomes (Harvey, 2003:4). Given the ever expanding definition of 'what is innovation' and acceptance of its role in improved business performance, supporting SMEs in a way that enhances understanding and helps operators to create an environment that encourages innovative activity, would be helpful.

Chapter 5
Exploring Linkages with Financial Yield

A key objective of this research was to explore whether linkages could be made between business practices and Financial Yield (see Chapter 1). For the purposes of this interview research Financial Yield was defined as:

$$\frac{\textit{Gross Operating Surplus} - \textit{Taxes} + \textit{Interest} + \textit{Leases}}{\textit{Fixed assets} + \textit{Leased Asset Value}}$$

The 55 businesses with valid financial yields between -30% and +30% were included in this exploration and these businesses were divided into quartiles that were based on yield ranges. There were several reasons for taking this approach:

- The quartiles were based on the application of a Logistic distribution derived from the mean and variance obtained from the various populations under study. There are not equal sample numbers in each quartile and that is a feature of the population (clusters of yields in small populations make it difficult to get exact samples in each division).

- The -30% to +30% financial yield range was the same as that used in the analysis of earlier research (see the Small Tourism Business Survey Report, and the Sector Performance and Business benchmarks Report, Lincoln University, 2006.). Consistency with these earlier projects was considered important for linking key findings.

- Reducing financial yield calculations from 55 individual results to four results (quartiles) meant the exercise was manageable, given the depth and breadth of qualitative information available for analysis.

Businesses were distributed across the yield quartiles as follows (Table 17).

Table 16
Distribution of businesses by financial yield quartile

	Quartile 1	Quartile 2	Quartile 3	Quartile 4	Total
Number of businesses	12	10	13	20	55

The sample size (55) and the small number of businesses in each quartile suggest caution is needed when considering the implications of the findings; it is advisable that findings are considered as specific to the group of tourism businesses who participated in this study and not simply extrapolated across the whole population of tourism businesses.

Linkages with Financial Yield were explored in the following ways.

1. Businesses were listed within each yield quartile to see if there were any obvious common features.
2. Business characteristics (e.g., legal status, business life cycle phase), and operator characteristics (age group, length of time in the current business, total business

experience, number of businesses owned) were cross tabulated with yield quartiles and subjected to Chi-Square testing.

3. The business practices of operators in quartile one (lower yields) were compared with those in quartile four (higher yields) to explore any notable differences in how operators conducted business.

5.1 Business Sector and Financial Yield

Listing businesses under their relevant financial yield quartile and sector showed that accommodation businesses were mostly found in quartiles one to three (Table 18). Activity businesses were mostly found in quartile four. Attraction and transport businesses were few in number (six and five respectively), but 50% and 60% respectively were in quartile four.

Notably, eleven (55%) of the 20 businesses in quartile four were activity businesses. Nine (75%) of the twelve businesses in quartile one were from the accommodation sector; all of these were hosted accommodation.

Table 17
Businesses by sector and financial yield quartile

	Quartile 1	Quartile 2	Quartile 3	Quartile 4	Total
Accommodation	**9**	8	9	3	29
Activity	2	1	1	**11**	15
Attraction	0	1	2	3	6
Transport	1	0	1	3	5
Total	*12*	*10*	*13*	*20*	*55*

The result was not entirely unexpected; accommodation businesses tend to have a higher investment in capital than do activity businesses.

5.2 Business Characteristics and Financial Yield

Cross tabulation analysis and Chi-Square tests were carried out between Financial Yield quartiles and the following characteristics: legal status; age group; time in the business; number of businesses owned or managed; total business experience; business lifecycle; and staffing.

Cross tabulation of such a small (55) sample, however, had the effect of spreading the businesses very thinly across the matrix of characteristics and financial quartiles, leaving many cells with no or less than five businesses in them. While consolidation of cells was carried out where appropriate, Chi-Square tests proved statistically invalid and no themes or patterns could be identified[5].

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5. For Chi-Square tests to be valid, expected frequency cells must not be less than five (Alreck & Settle, 1995:290).

The failure of this analysis to deliver any stories of interest should not be taken as a confirmation that there is no link between Financial Yield and any of the business characteristics under study. The problem here was primarily one of sample size. This research on the other hand is primarily about exploring links between business practices and Financial Yield and this is reported in section 5.3.

5.3   Business Practice Comparison: Quartiles One and Four

Responses to questions about business practices were extracted from the main data file for those businesses in quartiles one (low yield) and four (high yield). Responses from quartile one businesses were copied and listed separately as were responses from quartile four businesses. Responses to each question were then compared in an effort to identify differences in the way operators run their businesses. The difference in the number of businesses in each quartile (12 in quartile one and 20 in quartile four) meant a percentage approach was often employed to assess any notable differences between the quartiles.

The information, which was primarily qualitative in nature, was 'eyeballed' on several occasions by two researchers from the interview team and then subjected to joint discussion. Differences between the two quartiles were noted and tabled (Appendix A). The following points are the key findings about quartile four businesses when compared with quartile one businesses (Table 19).

Table 19
Key differences between quartile one and four businesses.

More quartile four businesses:	Examples
• Had 'current' motivations of a business focus (as opposed to a personal basis)	Operators were focusing on pursuing a vision, growing the business, the importance of staff, customer satisfaction, and / or looking at profitability and financial rewards.
• Had fewer part time owners.	Only 10% of quartile four businesses had part time owners compared to 50% of quartile one businesses. When businesses are first established, owners will often retain a level of 'other employment' to ensure a satisfactory level of income for the household. Part time owner involvement should not then automatically be associated with a lesser commitment to the business by the owner. It may be more an indicator of the stage of the business lifecycle.
• Had staff.	Most (90%) quartile four businesses had staff – both full and part time staff. Less than half (42%) of quartile one businesses had staff. While investment in staff to grow a business is sometimes required, the number of staff generally reflects the level of financial success achieved in the immediate past.
• Act on a broader range of business functions.	Quartile one businesses have a primary focus on marketing, much of which could be described as promotion. Quartile four businesses have a broader focus including marketing, staff issues, developing their assets and growing the business.
• Had a wide range of employee practices.	This reflects that most quartile four businesses have staff and therefore require a focus on staffing issues. Examples include: recruitment; training; retention; written policies; remuneration. Those quartile one businesses with staff focus on recruitment and training.
• Focused on growing the business.	Quartile four businesses were focused on growing the business not just growing customers which was more prevalent among quartile one businesses. This broader focus included looking for opportunities for new products, new markets, improved assets, new relationships, and bringing in external expertise.
• Planned to expand.	All private quartile four businesses planned to expand and expansion included new

More quartile four businesses:	Examples
	products, market development, upgrading of assets and purchasing of new assets. Quartile one businesses were mostly focused on expanding facilities and upgrading of assets. Many saw increasing their marketing efforts as expansion.
• Considered both cost and competitors when setting their prices.	65% of quartile four businesses considered cost as a factor in price setting compared with 17% of quartile one businesses, most of which focused on competitor's prices.
• Used 'profit' as a financial measure of business performance.	67% of quartile four businesses use profitability as a financial measure compared to 58% of quartile one businesses.
• Considered both cash flow and debt for their expansion plans.	39% of quartile four businesses were considering debt as a source of funding for expansion compared to none of the quartile one businesses.

Some of the above findings will be a factor of the size of the business (i.e. more quartile four businesses have employees). As businesses grow in size, the complexity of the issues that owners deal with expands and this tends to involve a wider range of activities.

The findings indicate there may be a positive association between Financial Yield and those businesses that:
- Focus on growth
- Consider both cost and competitors in their price setting
- Consider both cash flow and debt for expansion
- Use profit as a key financial measure of business performance

On this basis business support might be useful in the following areas:
- Growth strategies
- Pricing strategies
- Financing options
- Financial performance measures

The ideas presented here for possible business support measures should be regarded, along with findings from section 4.0, as a foundation for further discussion with the stakeholders of this research programme and with industry.

Chapter 6
Discussion

This section provides a summary and discussion of the main findings of the interview research. The limitations of the methods used are discussed and this is followed by a short section on future research. A discussion of 'where to from here – towards tool development' is followed by a conclusion.

6.1   Summary of Findings

6.1.1   Motivations

Most of the business operators in this study were motivated by a combination of both personal and business factors. Indeed individual owners appear to approach their work integrating both personal and business issues and the line between the two is often not easily discernable. Except for those who are working in their business as a transition towards retirement (mostly B&B owners), motivations that are reflected in statements such as 'I love what I do' and 'I enjoy working with people' appear to be an important part of the commitment to running and growing the business. This gives a different take on some interpretations of the 'lifestyle' aspect of tourism businesses that imply personal commitments compromise business performance. The findings here confirm that for many operators, particularly those in the activities sector, the 'lifestyle' component is really about having a passion for what one does, and as in other work arrangements (e.g. employment), working in an area that one enjoys can bring about a higher level of commitment and greater rewards in terms of personal satisfaction.   There was no evidence that those with broader 'lifestyle' objectives were achieving any lower yields than those who were more tightly focussed on financial objectives.

Those B&B operators with retirement in mind appear to appreciate the income and lifestyle options that the B&B business offers them. It also provides an opportunity to offer hospitality in a way that provides their visitors with a unique experience and gives the operators a great sense of personal satisfaction. There is a sense, however, among some B&B operators that new entrants to B&B businesses underestimate the amount of hard work that this kind of business requires. This study shows that the financial rewards from the investment in capital are often not great.

Whatever the initial motivations, there is a sense that many operators become more business oriented once they have been running their business for a period of time. While for some this is about looking for financial rewards for the hard work required to establish the business, others become motivated by the challenge to build a successful business and to do 'the business side of things' well.

6.1.2   Measuring Success

The study found that operators are very customer focused. The finding that 'customer satisfaction' is the most common way that operators assess their business success reflects this. Profit, as a success indicator, attracted only about half the number of responses as did customer satisfaction. Interestingly, of all the success indicators given, few were financial measurements. It would be reasonable (and good business practice) to expect that investment in those aspects of the business that bring about a high level of customer satisfaction eventually be reflected in the financial results (e.g., profit, turnover). Why some operators

using customer satisfaction as a measure of business success do not also regard any financial measure as an indicator of success is an interesting finding. Perhaps financial results are simply not considered important. Yet, profit (a surplus) provides financial inputs into the business for future operational spending, business investment and growth, from which the likelihood of sustainability and saleability are enhanced. Furthermore, a surplus can provide the opportunity for increased personal financial benefits from the business in terms of proprietor remuneration or be made available for higher staff remuneration. That some business owners may not desire or expect to be personally rewarded financially for the work that they do is rather hard to explain. Perhaps it is cultural; the kiwi modesty factor or the discomfort that some people appear to have with 'making money' from doing things they enjoy. On the other hand, perhaps there is simply a greater sense of personal reward from providing a high degree of customer service than there is from creating a profit. The finding begs the question: how would operators feel about providing a great customer experience as well as reaping more financial benefits for themselves?

Certainly it seems that personal satisfaction from the business can be exclusive of financial outcomes. Three quarters of respondents described the last financial year in terms that we categorised as 'Very Good' or 'Good', yet many of these operators had a low Financial Yield.

6.1.3 People

The breadth of comments about recent actions, and actions to build on strengths and overcome barriers provide an interesting and colourful snapshot of the workings of small and medium tourism businesses. There is a sense that most operators focus on doing their own thing in a routine kind of way, although some do appear to be working towards a grander plan. There is an underlying pride in what people are doing and there is a strong sense that the work needs to be enjoyable. Developing assets, particularly buildings with special characteristics (e.g. historic places), received much attention and staff are generally regarded in a 'family kind of way' or as a 'good team'.

Employee practices are not necessarily regarded as a combination of human resource 'strategies'. Rather they are seen as a set of actions that have emerged over a period of time as owners become more experienced at the processes involved and have worked out what works best for their business. 'Strategies' tend to be informal and iterative.

Skill needs analysis, job descriptions and the recruitment interview were mentioned only a few times, raising the question of how operators actually ensure (1) their preferred applicants are ultimately employed and (2) how the required contribution to the business is facilitated for the longer term. Few mentioned using information from the Department of Labour (DOL) website, which is comprehensive, and it may be that an appropriate response to this finding is to make the DOL information more readily accessible and perhaps to modify it to the needs of the tourism sectors.

Remuneration also received less attention than other areas. Whether the information was regarded as too personal to share with the researchers or whether it is not seen as part of the range of actions ensuring the right mix of people is unclear. Ultimately this too is about attracting the right kind of people into the workplace [and tourism as a whole] and needs to be regarded as such.

Given the great importance of staff to a business, it is preferable that a business has good systems in place to ensure staffing is appropriate and productive. This has been reinforced in Goal Four of The Tourism and Hospitality Workforce Strategy (2006):

"Businesses in the tourism and hospitality sector have the right information, management systems and processes in place to maximise the contribution of their people."

The findings of this research need to be considered alongside the Workforce Strategy and the work carried out on workplace productivity so that support in the human resource area can be as comprehensive as possible. Recent international research in tourism productivity found that those businesses (hotels) that introduced their human resource management practices as a mutually supporting package outperformed businesses that introduced such practices individually (Hoque, 2000, in Blake, Sinclair and Soria, 2006:1103).

6.1.4 Marketing

Marketing in all its guises is the main routine focus for most operators. It is possible however that many operators actually mean promotion or communication when they talk about marketing (there were many references to 'more marketing' or 'marketing harder'). Furthermore, there are aspects of marketing that may be less well understood; market research, identifying one's competitive advantage, positioning in the market place, and pricing. Also, few mentioned marketing planning.

Certainly there is some interest from operators in receiving advice on how best to spend the scarce marketing dollar. In particular there is a frustration over how best to attract the international visitor to an individual business and it seems that business websites are regarded as a key component of the response to this conundrum. While many operators regarded their website as 'very effective' or 'effective' this study did not explore the basis on which these assessments were made and this is an area where future research would prove helpful for operators and the industry. Furthermore, the extent to which websites can be used as a means to encourage repeat business and word of mouth promotion was not explored in any depth here and this would be useful given the investment that operators are making in website development.

Of most significance in the marketing function was the finding on price setting; cost is an important factor to consider when pricing one's products. Many operators are not incorporating costs into their pricing and the findings suggest that these operators are disadvantaging themselves financially.

6.1.5 Benchmarking

Many operators see comparing their business practices with other businesses as valuable and a range of informal methods are utilised. Most are regarded as effective although the criterion for effectiveness was not made clear. A few operators suggested they would like to be able to measure themselves against others in terms of financial measures in their sector, other business performance areas, wages and website effectiveness.

6.1.6 Financial Issues

The top three financial measures were profit, income and costs (cash flow was fourth ranked) and few mentioned using more sophisticated ratios. Easily accessible financial information seems to be the preference. The weak focus on financial results raises the question of how businesses might be supported so that the focus can be sharpened and a greater depth of understanding about financial measures can be developed and utilised in decision making. Importantly, the link between financial performance and sustainability needs to be a key learning from this research programme.

The study found that nearly two thirds (62%) of those who are planning business expansion intend to do so utilising cash flow and slightly more than a third (35%) are considering debt. Whether this simply reflects the availability of retained earnings for expansion, or whether operators are indeed debt shy and lack an understanding about how debt can be used and managed for growth, is not entirely clear. The findings are consistent, however, with international research on the financing practices of SMEs. Recent research in the UK presents a broader picture of problems:

"Small businesses often face particular problems in raising funds for investment … tending to have less such experience … in planning for the risk that this financing entails. Credit markets imperfections mean that lenders may not obtain accurate assessments of the viability of investment projects proposed by small businesses. Hence, many small businesses are forced to rely on internal funds for capital investment, which may limit their growth"
(Cosh and Hughes, 2000; In Blake, Sinclair and Soria, 2006)

The extent to which growth is being inhibited by the financing options chosen by tourism operators in New Zealand has not been explored in this research. This may be an area where further research would be valuable.

6.1.7 Business Support

The responses on questions about tourism information and business support have shown that a wide range of media and support are accessed although not all are considered useful. Tourism information from the RTOs were the most commonly cited source of tourism information although they also received more 'not useful' responses, so there may be room for improvement there. That so many sources were cited suggests that useful tourism information is fragmented and this may present an opportunity to consider whether a central web site or portal might be established from which tourism information can be accessed or quick links made. Of course not all information is digital in nature although there does seem to be a high level of comfort with web based information and this may be a pointer to how tourism information might be made more easily accessible and useable for operators. Certainly more in-depth data and benchmarking information (as requested by some operators) could be easily delivered in this way.

Business support comes mostly from professionals (accountants, lawyers, HR specialists, mentors) and industry organisations (membership, seminars and networking) and few suggestions were made in terms of additional support. Unlike tourism information, business operators prefer business support that is of an interpersonal nature – that is, where one interacts with others. That industry organisations ranked so highly suggests that industry / sector based support may be preferred.

6.1.8 Innovation

Ensuring that businesses continue to be innovative and benefit from the innovations introduced is an important part of ongoing business success in today's competitive environment. This research has shown that operators are generally introducing new and improved elements into their businesses. Yet the lack of rigorous market research and the small uptake of government tourism research suggest that there are opportunities for operators to access and apply more new knowledge to their innovations. An enhanced understanding of the elements of innovation in business would contribute to this process.

6.1.9   Elements of Higher Yield Businesses

The comparison of quartile one business with quartile four businesses was most useful and confirmed four areas that can be taken into the next phase of the research programme for further discussion:

- Growth strategies
- Pricing strategies
- Financing options
- Financial performance measures

6.2   Limitations

Undertaking a study that sought to identify relationships between vast amounts of qualitative data and quantitative financial data was a huge challenge. The breadth of the business practices included in the study meant that in some areas (e.g. employee practices and marketing) the responses did not provide the amount of depth that was hoped for. Furthermore, the methodology used (in-depth interviews) meant that the sample size was inevitably small.

Most notably, this study provides a snapshot of a group of tourism businesses at a particular point in time. Business success tends to be discontinuous and therefore longitudinal studies would likely provide a more robust understanding of what drives business success in the tourism sectors. Some business operators could be interviewed again in two to three years time. The prioritisation of business practices that emerge from this research programme would help focus the key questions for the second round of interviews.

All these factors place limitations on the strengths of the conclusions that have been drawn in this study. None-the-less, the findings do show a way forward in terms of what kinds of business support might be provided to the tourism sectors so as to enhance financial and economic yield.

6.3   Future Research

Limitations, perceived gaps in practices and findings of interest all help to provide a pointer to areas where further research would be helpful for the ongoing understanding of tourism businesses. The findings reported here suggest the following may be areas where further research would be helpful:

- Employee practices
    - o A more in-depth exploration of recruitment processes, staff development methods, approaches to staff retention, and remuneration.
- International marketing
    - o How can operators work with others in New Zealand and abroad to increase their international visitor volumes?
- Communication with potential customers
    - o What works best and why, how can communication be improved?

- Website utilisation and effectiveness
  - How can a business use its website for best advantage and how can it improve its effectiveness? What percent of the marketing budget should be invested in website development and maintenance? How effective is a presence on another website?
- Financing options
  - What influences the decision making around financing options and what might help overcome identified barriers?
  - To what extent are the financing options selected by tourism operators inhibiting the growth of tourism in New Zealand?

6.4 Towards Tool Development

The research presented in this report has identified a number of areas that can be taken forward into the tool development[6] phase of the research programme for further exploration and development. Given the focus on Financial Yield, as considered in this context, an important question to ask is, how best can the Financial Yield of businesses be influenced? Part of the response is to support businesses in ways that contribute to better revenues and better management of costs. Encouraging operators to continue to incorporate 'best practice' into their businesses must also be fundamental to an overall response to the research findings.

The business areas to be taken forward into the tool development phase of the programme are:
- Human Resource Management
- Marketing – e.g., market research, planning, pricing
- Understanding innovation
- Growth strategies
- Financing options
- Financial performance measures

An ongoing programme of tourism research also needs to be considered as part of the tool refinement process. Once implemented, tools will need to be monitored for their effectiveness, and modifications made to improve effectiveness in the long term. The latter process will be better informed with the application of new knowledge from ongoing and more in-depth research on these topics.

The findings in this report need to be integrated with those from the other private sector research projects in this Research Programme and this may result in an expansion of business areas to be taken forward. This can then direct a review of academic literature and recent government reports so that any new knowledge can be incorporated into the tool development process.

It is envisaged that the integration and literature review processes will lead the research team into a creative process whereby they, other research programme stakeholders and industry participants will determine and prioritise business areas where business support tools might be developed. Once prioritisation has occurred a focused domestic and international search for relevant existing tools can take place. Feedback on the success of existing tools, at least those available in New Zealand, will help inform the process.

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6. 'Tool development' is a term commonly referred to in this research programme and could include any kind of support offered to a range of stakeholders in the tourism industry sectors.

The final phase of the private sector research programme will deliver more detail around each 'tool' and this could take the shape of a 'brief' for each tool covering such detail as the resources required for development and delivery options. An Implementation Plan will provide guidelines for implementation and ongoing management of the tools.

6.5   Conclusion

In conclusion, this research has added much to the understanding about how small and medium tourism businesses operate. It also adds depth to the earlier survey of small tourism businesses (2005). Some associations have been made between some business practices and Financial Yield and some business practices have been identified to be taken forward into the tool development phase of the private sector programme. These are:

- Human Resource Management: packaging employee practices
- Marketing: market research, planning, pricing
- Innovation: enhancing understanding of its value
- Growth strategies
- Financing strategies
- Financial performance measures

Importantly, the scope of the inputs into the next phase of the programme now needs to be expanded so that new knowledge and stakeholder feedback contribute to the tool development process. Equally important are the subsequent issues about who develops the tools and who implements and manages their delivery.

From research on high growth SMEs in the UK:

"High growth can be achieved by firms with a variety of size, sector and age characteristics. One of the most important factors is the commitment of the leader of the company to achieving growth. The mature nature of the firms [in this study] suggests that while it may be true that in aggregate "most small businesses grow only in the first few years after start-up and then stabilize (Burns, 1989), the potential of mature SMEs to grow over a long period of time should not be underestimated. Firms do not move through a series of stages in incremental fashion. In fact, once a firm is established, growth can be a discontinuous process which means that from a policy perspective, a firm's recent performance may not be a good indicator of its future growth potential, which has implications for targeting strategies." (Smallbone, Leig and North, 1995)

Chapter 7
References

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Appendices

Question	Quartile 1 differences (12 businesses) Q1	Quartile 4 differences (21 businesses) Q4	Similarities
Owners working in the business	50% have owners in the business on a part time basis.	10% have owners in the business on a part time basis.	
Total number of staff	42% of businesses have staff. Highest number of staff is 40.	90% of businesses have staff. Highest number of staff is 58.	
Business experience			The business ownership/management experience is substantial in both quartiles, as is the time owners have spent in their current business.
Initial motivations			Initial motivations appear to be more personal (e.g., work in my area of interest, ill health, desire to work together, retirement) than business (e.g., growth, financial, customer satisfaction) in both quartiles.
Current motivations		The shift to being more business focused was slightly more evident in quartile 4 businesses.	Current motivations indicate a shift from initial motivations toward being more business focused in both quartiles although personal motivations do still appear.
Assessing success			Success is assessed on the basis of both personal (e.g., enjoyment, choice, satisfaction) and business (e.g., financial, occupancy, customer satisfaction) criteria but business criteria dominate in both quartiles. No-one indicated financial yield as a success criteria.

Question	Quartile 1 differences (12 businesses) Q1	Quartile 4 differences (21 businesses) Q4	Similarities
Last year's performance	Many positives including: 'still up there', successful', 'top class', 'great success'. Not so positive: 'less business around', financially terrible', 'could do better'.	Some of quartile 4 businesses used slightly more *positive* language than did those in quartile one – e.g. 'dramatic'. 'good growth', 'very good'. Not so positive: 'a bit too busy in terms of own sanity', 'declining', 'unsatisfactory', 'not making profit of 3-4 years ago'.	Business owners in both quartiles indicated satisfaction with last year's performance (on the basis of their own criteria for success).
Recent actions	Q1 businesses indicated a narrow range of actions (primarily of a marketing nature).	Q4 businesses indicated a broader range of actions than did Q1 businesses (e.g. marketing, people development, some asset development).	
Future actions	Most focused on marketing activities.	Most focused on expanding the business.	
Strengths			Business owners identified a wide range of strengths but there were no differentiating themes between quartiles.
Building on strengths			Business owners in both quartiles indicated a 'continuous improvement' focus.
Barriers	Capacity seen as a limiting factor/barrier and this may be reflective of the high percent of B&Bs populating this quartile.		A wide range of barriers were mentioned but no major theme emerged.
Overcoming barriers	Look at a narrow range of strategies to address barriers.	Look at a broader range of strategies than Q4 businesses to address barriers.	
Employee practices	75% don't employ any staff.	10% don't employ staff. Work practices include a wide range of strategies for recruitment, retention, people development and training.	
Communication with customers			Utilisation of web sites predominates. These include own website, presence on other websites and links to other web sites. Directories are important for the accommodation sector. Still a strong presence of traditional promotional tools. No notable differences between quartiles.

Question	Quartile 1 differences (12 businesses) Q1	Quartile 4 differences (21 businesses) Q4	Similarities
Basis for setting prices	The most common component of setting prices was competitor pricing (about half of businesses). 17% consider cost as a factor.	65% consider cost as a factor in price setting, and competitor pricing was a component for slightly over half of businesses.	
Key information used in business			Businesses in both quartiles focus on 2 or 3 types of information. No differentiating points. No differentiating points in information processing.
Benchmarking	92% compare business practices with other businesses.	75% compare business practices with other businesses.	Both see value in this practice; more evident in quartile one businesses.
Energy & water usage			About two thirds of both quartiles evaluate the use of energy and water used in their business.
Financial measurement	58% of the businesses in Q1 used the term 'profit' as a measurement.	67% of businesses in Q4 used the term 'profit' as a measurement. The range of ways financial performance is measured was slightly more comprehensive and more detailed than Q1 businesses.	
Asset financing	Half used debt; a quarter used cash flow.	One third used debt; half used cash flow.	
Financing expansion	58% of businesses planning expanding. 42% plan to finance expansion using cash flow.	90% of businesses planning expansion. 45% plan to finance expansion using cash flow. 25% considering debt and another 25% considering a range of options including cash flow, debt and equity.	
What tourism information would be useful?			No notable differences. Suggestions included information about marketing opportunities, tourism statistics, and benchmarking.
What business support would be useful?			No notable differences. Suggestions included support for how to spend the marketing dollar, targeted support, administration and computer skills, and mentoring.

Appendix B
Interview Questionnaire

Interviewer:
Interview date:

BUSINESS DETAILS
Business name:
Postal address:
Phone:
Email:

Proprietor's name(s):

Legal status of business:

Location (town/city):

Gender: **M / F**

Age group (circle):   **16 – 24   25 – 34   35 – 44   45 – 54   55 – 64   65+**

Highest educational qualification:

Industry or business seminars, workshops & training undertaken:	RESPONSES		THEMES
A. BUSINESS PROFILE			
1. What is the nature of your business activities? *ANZSIC Category & Code.*		ANZSIC Code:	
2. Who are your core customers?	FIT VFR Tour Groups Business Education Don't know Other:		
3. From what countries do your core customers mostly originate? *Top 3 countries including NZ.*	NZ AUS UK USA Japan Korea Don't know Other:		
4. How many people usually work in the business in the peak season?	Owners: Fulltime _____ Part time (< 30hrs/week) _____ Staff: Fulltime (30hrs/week+) _____ Part time (< 30hrs/week) _____ Temporary (Fixed term) _____ Casual (on call) _____		
5. How long in total have you been operating your business? *Experience in this business*	How long: _____ years		
6. How many businesses have you owned or managed (including the current business)? *Total business experience*	Number: _____ Over what period of time? _____ years		
7. In what industries were these businesses? *ANZSIC – Headline categories*	Agriculture Mining Manufacturing & processing Construction Wholesaling Retail Accommodation, cafes, restaurants Pubs, taverns & bars Transport Finance Property Business services Education Health Community Museum, Arts, Sport & Recreation Personal services		
8. In your opinion, at what stage of the business life-cycle is your business currently? *Links between stage & yield*	□ Start-up *(You are developing the business and generating increasing volumes of customers)* □ Stabilisation *(The business is stable and customer numbers are consistent with your capacity)* □ Growth *(You are increasing capacity to attract increased volumes of customers)* □ Maturity *(You have decided to maintain the business at the current level)*		
B MOTIVATIONS			
1. What initially motivated you to go into this tourism business?			
2. Are you still motivated by the same things?			

If not, what motivates you now and why?		
C. BUSINESS PERFORMANCE / SUCCESS		
1. How do you assess your business success? *ID proprietor's KPIs*	1. 2. 3. 4. 5.	
2. On the basis of these criteria, how would you describe your business performance this last year?		
3. How does this differ from previous years and why? *ID any changes in performance and influencing factors*		
D. STRENGTHS AND WEAKNESSES		
1a. What actions have you taken recently that are making the greatest contribution to the success of your business? 1b. Which of these make the greatest contribution – i.e. prioritise.	☐ ☐ ☐ ☐ ☐	
2. Why do you think these actions have been so important? *In order of priority from above.*	1. 2. 3. 4. 5.	

Analyse Q1.		
3. What actions do you want to take in the future that will increase the success of your business? *ID plans and perceived links between actions and performance.*	1. 2. 3. 4. 5.	
4. In your opinion, what are the main strengths of your business? *ID Top 5 strengths.*	1. 2. 3. 4. 5.	
5. How do these strengths affect the success of your business? *Analyse Q4.*	1. 2. 3. 4. 5.	
6. How do you intend to build on these strengths to increase the success of your business? *Analyse Q4.*	1. 2. 3. 4. 5.	
7. In your opinion, what are the main barriers to greater success? *ID Top 5 barriers*	1. 2. 3. 4. 5.	
8. How have these barriers affected the success of your business? *Analyse Q7*	1. 2. 3. 4. 5.	

9. How do you intend to overcome these barriers? *Analyse Q7*	1. 2. 3. 4. 5.	
E. EMPLOYEE PRACTICES		
1. What range of actions do you take to ensure that your business has the right mix of knowledge and skills? *Owners and staff* *Leadership, business management, recruitment, retention, training, professional development, appraisals, pay, business culture, motivating staff, staff satisfaction & feedback etc.*	1. 2. 3. 4. 5.	
2. Why have you selected this mix of actions? *Analyse Q1.*		
3. How do you assess whether your staff are contributing to your overall business goals? *How do you align employee policies with your business goals.*	1. 2. 3.	
F. MARKETING		
1. What are your products? *Goods and services.*	1. 2. 3. 4. 5.	

2. What research and analysis do you do to identify your potential customers to target?		
3a. How do you communicate with your potential customers about your product or service (list)? 3b. Which ones do you put the most effort into (time or money). *Number responses in order of effort.*	☐ ☐ ☐ ☐ ☐	
4. In your opinion, how effective have these communications been? *Analyse Q3.* *Order by effort as indicated in Q3.*	1. Very effective Effective Undecided Ineffective Very ineffective 2. Very effective Effective Undecided Ineffective Very ineffective 3. Very effective Effective Undecided Ineffective Very ineffective 4. Very effective Effective Undecided Ineffective Very ineffective 5. Very effective Effective Undecided Ineffective Very ineffective	
5. On what basis do you set your prices? *In relation to competitor, cost plus etc.*	1. 2. 3.	
6. How do you assess if the level of your pricing is appropriate for the customer? *What feedback loops have been developed, what analysis.*	1. 2. 3.	
7. Do you use others to help you sell your products to your potential customers? *E.g., wholesalers, in-bound operators, networking, clusters.*	Yes / No. If Yes, who are they? 1. 2. 3. 4. 5.	
8. How do you gauge whether the		

relationships with these others contribute to the success of your business? *Analyse Q7 (If 'Yes').*					
G. INFORMATION AND BENCHMARKING					
1. What is the key information you need to run your business? *Identify.*	1. 2. 3. 4. 5.				
3. In your opinion, how effective is each of these? *Analyse Q2.*	1. Very effective Effective Undecided Ineffective Very ineffective 2. Very effective Effective Undecided Ineffective Very ineffective 3. Very effective Effective Undecided Ineffective Very ineffective 4. Very effective Effective Undecided Ineffective Very ineffective 5. Very effective Effective Undecided Ineffective Very ineffective				
4. Do you compare your business practices with the business practices of other businesses? If 'Yes', how do you do this? *Benchmarking approaches.*	Yes / No. If 'Yes' how do you do this? 1. 2. 3.				

5. In your opinion, how effective are these methods? *Analyse Q4.*	1. Very effective Effective Undecided Ineffective Very ineffective 2. Very effective Effective Undecided Ineffective Very ineffective 3. Very effective Effective Undecided Ineffective Very ineffective				
H. ENERGY & WATER RESOURCES					

1a. What energy and water resources do you use in running this business? 1b. Prioritise resources by value ($expense)	☐ ☐ ☐ ☐ ☐	
2a. Do you evaluate the use of energy and water used in the business? 2b. If yes, how do you do this?	Yes / No. How:	
3a. Have you evaluated the cost effectiveness of alternatives or alternative ways of using the resource? 3b. If yes, what alternatives have you investigated?	Yes / No What:	
4a. Have you recently or do you plan to introduce alternatives? 4b. If yes, what are these?	Yes / No What:	

I. FINANCIAL GOALS		
1a. What are the main ways in which you measure the financial performance of your business? 1b. What measures are the most useful?	☐ ☐ ☐ ☐ ☐	
2. How do you link your financial results and your business practices? *E.g., feedback loops, what analysis, what communication, reward & recognition etc*	1. 2. 3.	
3. What has been the revenue, expense and asset trend over the last 5 years?	Revenue: Up Down Same Expenses: Up Down Same Assets: Up Down Same	
4. How satisfied are you with each of these trends?	Revenue: Very satisfied Satisfied Undecided Dissatisfied Very dissatisfied Expenses: Very satisfied Satisfied Undecided Dissatisfied Very dissatisfied Assets: Very satisfied Satisfied Undecided Dissatisfied Very dissatisfied	
5. Thinking about assets that you own or lease, what are your most valuable assets?	1. 2. 3. 4. 5.	
6. How have you financed these (Q5) assets? *E.g., bank overdraft, debt, equity (who), family, personal.*	1. 2. 3. 4. 5	
7. What expansion, if any, do you		

have planned for the next 1– 5 years? *Products, markets, buildings, equipment, technologies…*		
8. How will you finance this expansion?	Cashflow Overdraft Debt Equity Other:	
9. Why have you chosen these sources of funding for the expansion? *E.g., levels of risk, control*		
10. Financial information for yield calculation.	FINANCIAL YEAR: _____ A. Total revenues $_____ (P & L) B. Total costs $_____ (P & L) C. Finance / interest costs $_____ (P & L) D. Lease costs $_____ (P & L) E. Regular proprietor salaries $_____ (P & L) F. Proprietor dividends and drawings $_____ Are these in P & L expenses: Y / N (circle) G. Total assets $_____ (Balance Sheet) H. Value of any assets leased ('guesstimate') $_____ (Lease cost x 12)	
J. BUSINESS SUPPORT & COMMUNICATION		
1. What tourism information do you currently access for use in your business? *ID.*	1. 2. 3. 4. 5.	
2. How useful are they in the operation of your business? Why/Why not? *Analyse Q1.*	1.Very useful Useful Undecided Not very useful Not useful at all 2. Very useful Useful Undecided Not very useful Not useful at all 3. Very useful Useful Undecided Not very useful Not useful at all 4. Very useful Useful Undecided Not very useful Not useful at all 5. Very useful Useful Undecided Not very useful Not useful at all	
3. What information would you like that would be useful to your business?		
4. What externally provided	1.	

business support do you currently utilise in your business? *ID*	2. 3. 4. 5.					
5. How useful is this support in the operation of your business? Why/why not? *Analyse Q3.*	1.Very useful 2. Very useful 3. Very useful 4. Very useful 5. Very useful	Useful Useful Useful Useful Useful	Undecided Undecided Undecided Undecided Undecided	Not very useful Not very useful Not very useful Not very useful Not very useful	Not useful at all Not useful at all Not useful at all Not useful at all Not useful at all	
6. What business support would you like that would be useful to your business?						
K. OTHER COMMENTS and QUOTES						