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## Conference Paper

# Quality tourism and craft SMEs: evidence relating to formation and development from Western Ireland

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### **Introduction**

Small and medium size enterprises (SMEs) are often defined on the basis of differing employment criteria in different contexts, although the official European Commission (EC) definition relates to enterprises which employ less than 500 persons. For the purposes of the research reported here, an employment threshold of 50 employees was used, and many of the surveyed enterprises fell below this threshold. During the last two decades, SMEs in general have been assigned roles of increasing importance in job creation and innovation in many economies (OECD, 1996). The range of sectors in which SMEs are now involved is highly diverse and includes a multiplicity of manufacturing and service activities (Storey, 1994). They have an established history in the development of rural localities (O'Farrell and Hitchens, 1989), although such environments are not necessarily optimum for SME development (Vaessen and Keeble, 1995). The role of SMEs in rural development has assumed new importance in recent decades as reform of the Common Agricultural Policy (CAP) continues and alternative sources of employment are sought to supplement farm incomes. EU and national government policy in many countries since the late 1980s has targeted on and off-farm employment which draws on the resources of the rural economy as an appropriate method of contributing to the sustainability of population, economy and environment (Ilbery and Bowler, 1998).

In the context of diversifying the rural economy, the production of 'quality' products and services (QPS) is receiving particular emphasis as a method of providing competitive advantage. Thus, the OECD (1995) in its document on *Niche markets as a rural development strategy*, identifies the pursuit of quality (which is recognised as being a multi-faceted phenomenon) as a method of creating a segment in the market. Under usual market conditions of limited knowledge, successful product differentiation which provides consumer confidence may be able to command a premium price. The definition of 'quality' is a much-contested issue and is recognised as having operational, objective and subjective dimensions (e.g. meeting consumer demand, compliance with defined measurable criteria, compliance with less clearly defined but nevertheless highly sensitive criteria such as aspects of flavour and design) (Quinn, 1994). The development of quality rural products and services is, as yet, under-investigated, although Ilbery and Kneafsey (1998) have explored aspects of the

connections between the development of quality and place of production in a recent paper.

This paper presents findings relating to some 100 selected quality tourism and crafts enterprises from the Northwest and Southwest of Ireland, sectors which have niche recognition in both areas. Key characteristics of the entrepreneurs and of their businesses, including business development, are described, as are the main forms of institutional support that are available. Clusters of business types are identified and their role in contributing to rural development is discussed.

### **Study areas and sampling**

The selected study regions are located within Ireland's less developed western zone. The Northwest region, as defined for study purposes, consists of counties Leitrim, Roscommon and Sligo, and the Southwest comprises counties Kerry and west Cork. The former region has distinctive upland plateaux topography in the northeast, a high density of rivers and lakes and an extensive coastline in county Sligo. There is a tradition of touring holidays in the Yeats' Country of Sligo and Leitrim (immortalised in the verse of the poet laureate William Butler Yeats) and coarse angling, game angling, golf, sailing and surfing are well-developed tourist products. Handcrafts are of growing importance in the region. The Southwest is dominated to the south and west by a number of steep mountain ranges (of up to 1040 m altitude) and a highly indented coastline. The northern and eastern parts consist of generally fertile agricultural lowlands. South west Cork and Kerry are long-established tourist locations and are recognised locales for handcraft production with links to tourist markets. The contrasts between the two regions serve to ensure diversity among the selected QPS.

Because of the emphasis on 'quality' in the research, this feature influenced the way in which enterprises were selected for study. 'Quality' was defined for study purposes in terms of possession of one or more of a range of both objective and subjective quality criteria: (i) certification, in terms of possession of a quality mark/symbol or product/service designation; (ii) association through possession of a regional designation, traceability or link to culture or heritage; (iii) specification, in terms of production, service method, raw materials or ownership; attraction, in terms of design, texture, appearance, premium price, personal attention. No systematically compiled databases of QPS, as such, exist in Ireland. Therefore, considerable background research was necessary, which involved consultation of specialised directories and discussion with experts, in order to compile lists of 'quality' producers. Whilst the list of quality criteria is comprehensive, with the exception of the accommodation sector, examples of best practice were limited in number. The sample consists of 20 handcrafts producers and 28 rural tourism providers in the Northwest and 22 handcrafts and 29 rural tourism providers in the Southwest. In both instances, a range of different crafts products (jewellery, pottery, textiles, woodturning) and tourism services (accommodation and recreational activities such as golf, angling, cruising) is represented, reflecting the diverse product and service base in the two regions. A feature of both sectors is the presence of a variety of sub product types rather than clusters of particular types. Accommodation is an exception but, even in this instance, the number of potential interviewees was constrained by the criterion for selection which required that the minimum standard for approval should be exceeded.

Information was collected through in-depth interviews which took between one and a half and two hours to conduct on average. The interview schedule used included both closed and open questions and subsequent analysis involved both quantitative and qualitative methods.

### **Sample characteristics**

#### *Entrepreneurs*

Approximately 50% of the tourism businesses in both regions and 50% the crafts businesses in the Southwest are male-owned and an additional one-third of tourism businesses in the Southwest (mainly golf courses) have a primarily male ownership (Table 1). Female ownership is more prevalent in both sectors in the Northwest than in the Southwest. Most owners are middle aged, but crafts producers in the Northwest are younger than others. Immigration of entrepreneurs is marked in the crafts sector, particularly in the Southwest. This phenomenon is less marked in the tourism sector but is again more prevalent in the Southwest. Levels of university or other third level education are relatively high (in excess of 40% overall) and are highest in the crafts sector in the Northwest (60%) and in tourism in the Southwest. Training relating to marketing is highest among craft producers in the Northwest but for the most part less than 30% of producers have such training. Previous experience of the business, prior to establishing the current enterprise, was highest in tourism in both regions, and amongst craft producers in the Northwest.

More than half of the surveyed businesses in both regions are family owned and almost 40% of tourism businesses in the Northwest are farm-based, reflecting the presence of a branch of the Irish Country Holidays co-operative in the sample. Tourism enterprises are longer established than crafts enterprises in both regions. The most recently established businesses are in the crafts sector in the Northwest where the mean age of business is 11 years. A majority of businesses are micro-enterprises as measured by employment. Mean employment in all cases, except rural tourism in the Southwest, is less than 10 and many crafts enterprises provide employment for the owners only. Part-time employment is limited, although some tourism enterprises employ seasonal labour. Business size, as measured by median and mean turnover is modest, except in the case of tourism businesses in the Southwest. Some crafts businesses in the Northwest have a very modest turnover of less than 13,000 EUROS.

**Table 1. Key characteristics of entrepreneurs by region**

	Handcrafts		Rural tourism	
	NW	SW	NW	SW
No. of cases	20	22	28	29
% Male	45	50	50.0	51.7
% Female	55	36.4	35.7	17.2
% Predominately male	-	13.6	10.7	31.0
% Predominately female	-	-	3.6	0
Modal age group	36-45	46-55	55+	46-55
% from the study area	30	18.2	60.8	48.3
% with third level education	60	41	42.9	58.6
% with training re. marketing	35	27.3	28.6	27.6
% with previous experience	50	36.4	67.9	51.7

**Table 2. Key characteristics of businesses by region**

	Handcrafts		Rural tourism	
	NW	SW	NW	SW
No. of cases	20	22	28	29
% farm based businesses	-	-	39.3	3.4
% family owned	55	63.6	78.6	55.2
Mean age of enterprises (years)	11	15	18	19
Mean no. of full-time employed	2	4	5	10
Mean no. of part-time employed	1	1	2	3
Median turnover (000 ECU)	<13	39-65	65-97	194-259
Modal turnover (000 ECU)	<13	39-65	<13	65-97& 259 -389& 389 -648

*Quality attributes*

All of the producers viewed their product or service as being a quality QPS and a majority perceived their personal involvement in the business as being the factor of greatest importance in determining that quality. Official quality certification was higher in tourism than in crafts: 93% and 66% of tourism providers in the Northwest and Southwest, respectively, reported certification whereas only 50% of craft workers in each region did so. This difference is not unexpected given that quality certification is a well-established feature of the tourism sector. Official quality certification in the case of crafts relates to assaying and stamping of gold and silver items or, more usually, possession of a peer-assessed quality mark. Producers were also asked to rank a series of quality criteria identified by the OECD (1995) as being pertinent to the effective marketing of QPS. Their responses provide further information about their perceptions.

**Table 3. Ranking of selected factors important in ensuring 'quality'**

	<b>Handcrafts</b>		<b>Rural tourism</b>	
	<b>NW</b>	<b>SW</b>	<b>NW</b>	<b>SW</b>
No. of cases	20	22	28	29
Product/service differentiation	<b>2</b>	<b>1</b>	<b>2</b>	5
Participation in certification/quality mark	9	<i>10</i>	7	<i>10</i>
Association with a particular region	9	7	5	<b>3</b>
Good environmental conditions	5	<i>10</i>	<b>3</b>	<b>2</b>
Traceability to original owner/traceability of inputs	8	7	<i>10</i>	<i>11</i>
Consumer perception	6	5	6	3
Premium prices	3	9	6	9
Close involvement of the owner	<b>4</b>	<b>3</b>	<b>1</b>	<b>1</b>
Raw materials/content	<b>1</b>	<b>2</b>	<i>11</i>	8
Method of production	<b>3</b>	6	8	7
Appearance	<i>10</i>	6	9	6
Texture	-	<b>4</b>	<i>10</i>	8
Presentation/promotion	7	8	<b>4</b>	<b>4</b>

Each factor was scored from 1-5 and the resulting total scores are ranked in terms of importance in Table 3. Crafts producers in both regions ranked 'Raw materials/content' and 'Product differentiation' in the first two factors in both regions. 'Method of production' was allocated greater emphasis in the Northwest, reflecting the presence of pottery and jewellery producers. 'Close involvement of the owner' was ranked 3 in the Southwest and 4 in the Northwest. The ranking of 'Texture' in fourth place in the Southwest reflects the presence of some textile producers in that region. 'Participation in an official quality mark' was ranked low in both regions and there were inter-regional differences in relation to the role of 'Environmental conditions' and 'Appearance of the product'.

Rural tourism providers agreed on 'Close involvement of the owner' being the quality characteristic of greatest importance and 'Good environmental conditions' was ranked highly in both regions. 'Product/service differentiation' was ranked more highly in the Northwest whereas 'Association with a particular region' was allocated more importance in the Southwest. There was agreement on the importance of 'Presentation/promotion'. 'Traceability' factors were of little importance and 'Raw materials' were given low rankings, reflecting the accommodation and recreational products involved.

Whilst 'Participation in certification' is not ranked highly as a quality characteristic, most tourism producers feel that certification influences sales, in being an assurance of quality for consumers. Of producers not certified, the main reason given is that there is no certification body applicable to their product, or that official certification has not been found necessary. The absence of official certification applies primarily in the recreational sector where all of the sampled enterprises adhere to the criteria of the appropriate professional group. In-house monitoring is of considerable importance.

### **Business establishment and development: institutional support**

There is a wide range of organisational assistance potentially available to producers and providers of QPS in both study regions. The widest range of organisational assistance for SMEs in general is available from regional multi-sectoral organisations (County Enterprise Boards, LEADER and Partnership Companies). Advice, funding, training and technical assistance for general business development, quality, promotion and marketing, networking and use of regional imagery in marketing are provided. The amounts of financial assistance available are limited, however, because of budgetary restrictions and because of the large number of clients involved. Specialist training is usually provided through other agencies such as FAS, the national training and employment authority, and CERT, the state tourism training agency.

There is a wider range of assistance available in the Northwest than in the Southwest because of its border status adjoining Northern Ireland, and for tourism providers versus crafts producers. Nevertheless, the Southwest has two regional organisations which support both sectors, namely Udaras na Gaeltachta (the Gaeltacht Authority), whose remit extends to areas of south west Kerry and Cork where the Irish language is spoken, and Shannon Development which is the tourism and industrial authority in North Kerry. A range of regional sectoral organisations assists with promotion and marketing in both regions, notably Enterprise Ireland for crafts and Regional Tourism Authorities for tourism products. National private product marketing groups are of particular importance for the promotion and marketing of rural tourism products and many have quality criteria as a condition for membership. The Crafts Council of Ireland is the national advisory and training agency for crafts and plays an important role in promotion and marketing, most notably through organising an annual crafts fair for the trade, *Showcase Ireland*.

Key organisations which are involved with the selected product and service types were interviewed about the supports which they provide and their views were elicited on the strengths and weaknesses of the study regions. Positive features which organisation associated with both regions are the natural environment, the buoyant economy, tourist markets and innovative immigrants. Perceived disadvantages included remoteness from major markets, a good work ethic but a lack of innovation locally, and deficits in marketing capacities, particularly among crafts producers.

### The sampled businesses

Information was collected for a range of factors relating to the features and development of the businesses surveyed. Producers and providers were classified into clusters using a classifier called “AutoClass” (Cheeseman and Strutz, 1995) based on the use (or not) of 20 typical actions and the achievement (or not) of 10 typical objectives, which appear in sequence in Table 4. Five clusters or ‘strategies’ were identified for a majority of the sample of crafts and tourism producers and the proportions registering each action in each cluster is given. All entrepreneurs conduct internal monitoring of quality.

**Table 4. Definition of key producer strategies**

	Strategies/clusters				
Typical actions and results	% registering each action in cluster				
<b>C=crafts</b>	1	2	3	4	5
<b>RT= rural tourism</b>	C+RT	RT+C	C+RT	RT+C	C+RT

Business development course	<b>97</b>	0	0	<b>100</b>	50
Business management course	<b>73</b>	5	9	<b>87</b>	17
Course in production standards	<b>86</b>	24	<b>82</b>	<b>75</b>	<b>100</b>
Course in quality standards	<b>68</b>	14	27	<b>100</b>	<b>67</b>
Course in marketing	<b>57</b>	24	0	<b>87</b>	50
Previous business experience	<b>65</b>	<b>67</b>	<b>64</b>	<b>87</b>	17
Received grant/financial aid	<b>54</b>	29	<b>100</b>	<b>100</b>	50
Assistance for marketing studies	11	5	18	<b>62</b>	17
Received technical assistance	5	0	9	37	0
Assistance in achieving quality	3	0	18	37	0
Assistance in initial promotion	5	14	45	<b>100</b>	0
Assistance with actual marketing	14	14	<b>64</b>	<b>87</b>	17
Changes in nature of business	<b>76</b>	<b>81</b>	36	<b>62</b>	17
Internal quality monitoring	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
External quality monitoring	<b>68</b>	<b>57</b>	45	<b>62</b>	33
Use of Internet for marketing	<b>54</b>	<b>76</b>	27	50	17
Membership of marketing group	<b>57</b>	<b>86</b>	45	<b>100</b>	50
Contact with consumer network	19	33	27	<b>62</b>	0
Market research conducted	<b>68</b>	38	<b>91</b>	<b>62</b>	50
Use of regional imagery in promotion/marketing	<b>95</b>	<b>81</b>	<b>82</b>	<b>87</b>	<b>83</b>
Growth in output/employment	<b>100</b>	<b>100</b>	<b>100</b>	<b>88</b>	0
Development of QPS	<b>65</b>	<b>100</b>	<b>64</b>	<b>88</b>	<b>83</b>
Business profitable	<b>78</b>	<b>86</b>	<b>91</b>	<b>50</b>	<b>50</b>
Added value created	<b>97</b>	<b>100</b>	<b>91</b>	<b>88</b>	<b>100</b>
Exports developed	<b>84</b>	<b>86</b>	<b>100</b>	<b>63</b>	<b>50</b>
Employment created	<b>86</b>	<b>90</b>	<b>73</b>	<b>100</b>	<b>83</b>
Recognised as QPS	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Officially recognised as QPS	<b>57</b>	67	<b>64</b>	<b>88</b>	50
Certification makes a difference to sales	<b>54</b>	29	<b>64</b>	<b>63</b>	33
Customers/consumers have easy access to products	<b>100</b>	100	<b>100</b>	<b>100</b>	<b>100</b>

The first cluster consists of a group of crafts producers and rural tourism providers, located primarily in the Southwest, who have received business, marketing and quality development training. The vast majority are family-owned, non-farm businesses; over 70% of the producers are over 35 years of age and over 50% are immigrants. A substantial proportion had previous experience of the business before becoming engaged. Over half received grant or financial aid to establish the business and over three-quarters have changed the nature of the product or service over time. Over two-thirds have external monitoring of their business. Use of regional imagery for marketing is almost universal, over two-thirds have conducted market research and over half use the Internet for marketing and are members of a marketing group. All of the businesses have grown in output since establishment, and most have created added-value during processing, developed exports and created employment. Over three-quarters reported profits.



Rural tourism entrepreneurs dominate in the second cluster and they are divided between the two study regions. Most of the businesses are non-farm and family owned and almost 40% are registered as companies. A majority of the owners are over 45 years of age, over 50% are from the area and two-thirds have third level education. Over two-thirds had prior experience of the business. Use of the Internet for marketing, membership of marketing groups and use of regional imagery in marketing are high. All of these businesses have developed products/services, their businesses are profitable and they have created added value and most have created employment. Exports have been developed by three-quarters. Whilst their business characteristics are positive, training in business methods is low and few have conducted formal market research. Just over 50% have external monitoring of quality, and certification is not felt to make a difference to sales. These entrepreneurs are low on business and technical skills but have successful businesses.

Cluster three consists primarily of crafts producers with some tourism providers in the Northwest region. All are non-farm businesses and just over 50% are family owned. The majority of the owners are aged 35-45, most are immigrants and over 60% have third level education. Some 80% have attended a course in production standards, 64% have previous experience of the business, and all have received grant aid or financial assistance. Almost two-thirds have received assistance with marketing, 91% have conducted market research and 82% use regional imagery in marketing. External monitoring of quality is low although two thirds believe that certification makes a difference to sales. All have increased output/employment, 64% have developed their products and 73% have created employment. Their businesses are profitable for the most part and they have created added value. All feel that consumers/customers have easy access to their products. They have conducted market research and have made use of financial assistance. Substantial proportions of the businesses are profitable, with exports, add value, and make contributions to employment.

Rural tourism providers dominate in cluster four which also contains some crafts producers, all of whom are in the Northwest. Almost two-thirds are non-farm, family-owned businesses. Over half of the owners are over 45 years of age, are immigrants, and over 70% have a third level educational qualification. They resemble cluster one in having strong business and marketing characteristics in terms of course attendance; previous experience of the business is high and all have received grant aid. This group has the strongest marketing expertise and most active marketing activity. Only 50% report profitability which may reflect the presence of smallscale rural tourism businesses. A majority have developed their products and businesses and created employment and added value.

Cluster five consists primarily of crafts producers and one tourism provider and are located in the Southwest region. All of the businesses are non-farm and two-thirds are companies. Some 50% of the owners are over 45 years of age, have a third level qualification and most have moved to the area. They have training in production and two-thirds have training in quality, yet external monitoring of quality is low because of the absence of quality criteria as such for the products involved. There is some experience of market training, research and group marketing. Some 50% of the businesses are profitable, all have created added value and most have created employment and developed their products. Output and employment have not grown.

Few feel that certification makes a difference to sales. A majority of these are established and skilled craftspersons who have achieved personally satisfactory levels of output and appear to have limited interest in expansion.

A number of broad features emerge from the above. All entrepreneurs monitor quality internally and all feel that their product/service is recognised as a QPS. External quality monitoring is more important in the rural tourism sector than in crafts. Contrasting groups of crafts producers and rural tourism providers are identifiable where levels of business qualifications and marketing methods serve as differentiating factors. Thus, producers in Cluster 1 have stronger business training attributes and make more use of the Internet and group marketing than do their counterparts in Cluster 3. A majority of both, however, are profitable businesses. Cluster 2 producers have low levels of business training but a majority make use of the Internet for marketing and are members of a marketing group. Their counterparts in Cluster 5 have more training in production methods but usage of modern marketing media is limited. Aspects of business growth illustrate that the former are expanding businesses whereas the latter are not, although many of the latter have developed QPS. Cluster 4 consists of businesses with the most positive characteristics on all indices. Some 50% of the cluster reported no profits but this does not mean that they are loss-making enterprises. They include small farm accommodation businesses.

### **Conclusions**

SMEs are being allocated increased attention in development policies for rural economies where continuing reform of the CAP requires alternative sources of income to be generated if viable demographic, social and economic systems are to be maintained. The tourism sector has received particular emphasis in several countries in recent years because of growing interests in 'green' tourism where peripheral areas have particular strengths in terms of having high environmental quality and providing opportunities for outdoor recreational activities. Support for this new role for the remoter countryside has been forthcoming from EU and national government sources through investment in leisure facilities. Rural areas of the Republic of Ireland have benefited from such investment under Structural Fund allocations during the past decade. Funding has also been provided through LEADER and other programmes for on-farm diversification, including accommodation provision. Other sectors of the economy have benefited from tourism development, notably the food sector. Handcraft production is also associated with tourism development in many countries including the Republic of Ireland.

Whilst employment creation per se has for long been a priority in peripheral rural areas, the promotion of quality products and services is now viewed as being necessary by both the OECD (1995) and the EU (CEC, 1996) to provide competitive advantage and gain market share. To date, relatively little research has been conducted on quality niche tourism and crafts products. This paper reported results from a survey of 100 carefully selected tourism and crafts businesses in the Northwest and Southwest of Ireland. Quality as reflected in personal involvement of the producers in the business, their skills and attention to detail, is valued highly by all producers and providers. Whilst a majority of the businesses are male-owned, there is evidence of substantial involvement of female entrepreneurs. With the exception of some crafts producers, most entrepreneurs are middle-aged. Substantial proportions have third level

education but training relating to marketing is less marked. Previous experience of the business in which they are now engaged is high, except in the case of crafts producers in the Southwest. The results of clustering the producers by key business features reveal a number of broad patterns.

All producers conduct internal monitoring of quality, and all feel that their product or service has quality recognition. External monitoring and certification of quality is higher in tourism than in craft businesses, reflecting the well-established procedures in the former sector. Quality is viewed as making a difference to sales particularly by tourism providers. Links to the region of production were identified as being important by tourism producers in particular, and many producers in both sectors use aspects of regional imagery in their marketing. Potential exists for further developments in this regard.

Many entrepreneurs are immigrants to the study areas who have been attracted by lifestyle considerations as well as by the business potential provided by tourism locations. Their dominance, however, suggests that a deficit exists in innovation locally, particularly in the crafts sector. Reasons include the loss of traditional skills and qualified labour from many areas through outmigration, but also the specialised nature of the high quality crafts sector where training, design and effective marketing are necessary. Local entrepreneurship is more common in accommodation businesses but in this sector there is considerable immigrant investment, particularly in large properties which yield some of the highest incomes. The quality accommodation and recreational sectors also require specialist knowledge and training which may be in limited supply in depopulated areas.

Employment provision and turnover are limited in many businesses and therefore their monetary contribution to the regional economy is restricted. Nevertheless, a high incidence of modest employment creation has taken place, exporting occurs, and value added is created during production and processing. Many businesses have not, as yet, reached their full production potential because of deficits in marketing skills and this is an issue that requires attention from development agencies. In other cases, producers may wish to retain niche handcrafted quality attributes by controlling production and may be averse to moving to larger scales of output.

Overall, the results suggest that quality products and services have contributions to make to the economies of lagging areas. These contributions relate not only to the creation of employment but also to the adding of value to local resources, including the areas per se as tourist and consumer destinations. However, much of the skill, expertise and investment is coming from outside the regions in question and the immediate employment effects for indigenous inhabitants are limited, in the absence of expansion. Concerns with quality, the seasonality of tourist markets and the need to develop export markets serve to inhibit business expansion. Further attention needs to be given to these issues. More attention needs to be given also to increasing the involvement of local people in niche product development through training and education so that their potential contributions to local economies and societies may be enhanced.

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