7.5. How does tourism-related firm dynamics differ from other sectors?

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1. Introduction

The dependence of countries on the tourism sector has several implications on their overall economic performance (see, *inter alia*, Eugenio-Martin, Morales and Scarpa, 2004 and Andraz, Gouveia and Rodrigues, 2009). According to the World Travel and Tourism Council (WTTC) (2018) the direct contribution of Travel and Tourism to the world GDP in 2017 was USD 2,570.1bn (3.2% of total GDP). However, the contribution is significantly higher when indirect and induced effects are also taken into account. The total contribution in 2017 was in effect USD 8,272.3bn (10.4% of GDP), with a share in employment (including wider effects from investment, the supply chain and induced income impacts) of 9.9%, i.e., 313,221,000 jobs (WTTC, 2018).

In Portugal, tourism also plays a central role on the country's economic performance. According to the WTTC (2018), the total contribution of tourism to GDP in 2017 was USD 38.0 billion (EUR 33.5 billion), corresponding to 17.3% of GDP, and it is expected to grow by 2.4% per annum to 20.5% of GDP by 2028. The total contribution to employment was 967,500 jobs in 2017, around 20.5% of total employment and it is expected to grow 1.3% per annum to 1,151,000 jobs (24.9% of total employment) by 2028. About a quarter of foreign investment is motivated by the tourism trade.

The importance of the tourism sector for Portugal was also emphasized and highlighted in a recent issue of Banco de Portugal Economic Bulletin (December 2018). According to the Tourism Satellite Account (TSA) released by Statistics Portugal, tourism spending in Portugal increased 3 percentage points of GDP from 2008 to 2015, reaching about 12% in the end of this period. In addition, the gross value added generated by tourism grew faster than the rest of the economy, which led to an increase in its relative importance over this period. In terms of the labour market, there was also an increase in the importance of tourism-related activities. Moreover, available

indicators suggest that the relevance of this sector in the various macroeconomic aggregates increased further between 2015 and 2017.

Given the importance of tourism as one of Portugal's main economic activities and its important role in relation to other economic sectors, this Section provides a comprehensive characterization of tourism-related firm dynamics.

2. Data and tourism definitions

This Section uses firm level data covering the period from 2006 to 2017. The data was obtained from *Informação Empresarial Simplificada* (IES), which includes balance sheet and income statement information annually reported to the Ministry of Justice, Ministry of Finance, Banco de Portugal and Instituto Nacional de Estatística, virtually covering the universe of non-financial Portuguese firms. The data on overnight stays by tourists was collected from the Eurostat.

In order to identify the sectors with larger exposure to touristic activities, we follow the definitions proposed by the Eurostat. A broader group of activities which offer services to both tourists and non-tourists was labeled *Total Tourism* and includes activities of three main groups: Transportation, such as trains and taxi operations; Accommodation, Food and Beverage Services such as hotels, restaurants and bars; and Logistics, such as car rentals and travel agencies.

In order to isolate as far as possible the tourism specific effect, a second group labeled *Mainly Tourism* was considered, which includes only the activities which offer services mostly to tourists. In addition to passenger air transport and travel agencies, this group also includes three accommodation categories: Hotels and similar accommodation; Holiday and other short-stay accommodation, which include house rentals for holidays, short-term rentals of digital platforms and tourism in the rural areas; and Camping grounds and trailer parks. A comprehensive list of the activities included in both groups is presented in Table 19.

NACE Code	Description	Total Tourism	Mainly Tourism
H491	Passenger rail transport, interurban	x	
H4932	Taxi operation	x	
H4939	Other passenger land transport	x	
H501	Sea and coastal passenger water transport	x	
H5110	Passenger air transport	x	x
I5510	Hotels and similar accommodation	x	x
I5520	Holiday and other short-stay accommodation	x	x
I5530	Camping grounds, recreational vehicle parks and trailer parks	x	x
I5610	Restaurants and mobile food service activities	x	
I5630	Beverage serving activities	x	
N771	Renting and leasing of motor vehicles	x	
N7721	Renting and leasing of recreational and sports goods	x	
N79	Travel agency, tour operator reservation service and related activities	x	x

Table 19: Tourism definitions

Note: Sector code according to NACE Rev.2 and CAE Rev.3.
Source: "Tourism Industries - economic analysis" - Eurostat.

3. Firm characterization

Portugal's tourism boom over the last decade has emphasized the importance of this economic activity. In particular, between 2012 and 2017 there was a significant growth in the number of overnight stays in Portugal (of around 40%), reaching more than 70 million in 2017. The strong growth in demand is visible across all sub-sectors, and particularly in the main category - hotels and similar accommodation. Nevertheless, the increased weight of other short-stay accommodation, such as, e.g. Airbnb, has turned this category into a non-negligible part of the tourism structure. In fact, over the last decade, the number of overnight stays in other short-stay accommodation in Portugal has increased more than 5 times, reaching almost 6 million stays, which corresponds to around 8% of total touristic accommodation in 2017.

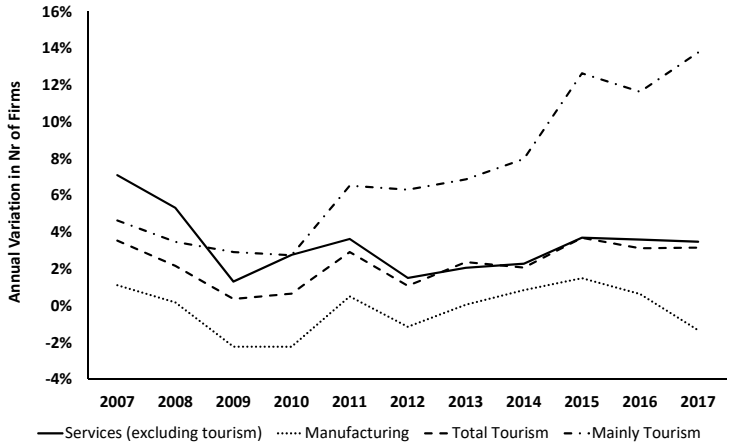

Figure 65: Number of firms - year-on year growth rate
Source: IES.

3.1. *Tourism*

Figure 65 shows a considerable increase in the number of firms in the *Mainly Tourism* sector, over the last decade. This number has more than doubled between 2005 and 2017. It is important to highlight the strong contribution that is observed over the last five years to the overall evolution and dynamism of the tourism sector. Moreover, in 2017, the number of firms is over 10000, reaching almost 7% of the total services sector. This positive evolution is much stronger than the one observed in the services sector and is in contrast to the modest evolution observed in the manufacturing sector.

In terms of the number of employees, the positive evolution observed in the tourism sector is similar to that observed in the services sector. Between 2005 and 2017, the number of employees increased around 30%, corresponding to more than 80 thousand individuals and to around 8 percent of total services. Regarding the number of firms and number of employees, the main driver in *Mainly Tourism* is related to short-stay accommodation.

3.2. *Short-stay Accommodation*

Figures 66 and 67 show the number of firms and the number of employees within the holiday and other short-stay accommodation, respectively. From 2008 on, and with particular intensity in the period 2014-2017, developments in this category have a significant contribution to *Mainly Tourism* as a whole. In particular, in the *Furnished*

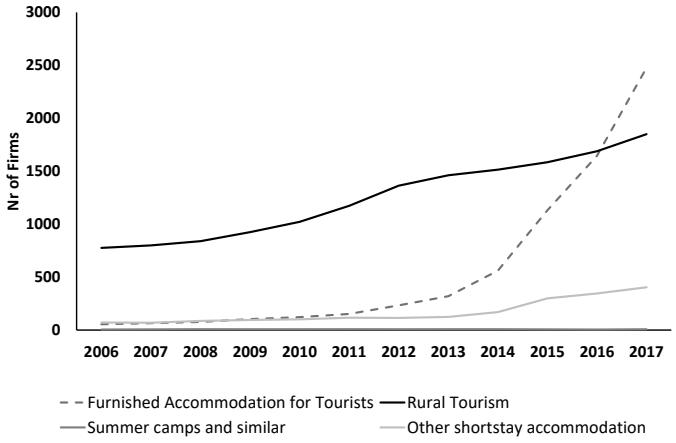

Figure 66: Number of firms - holiday and other short-stay accommodation categories

Source: IES.

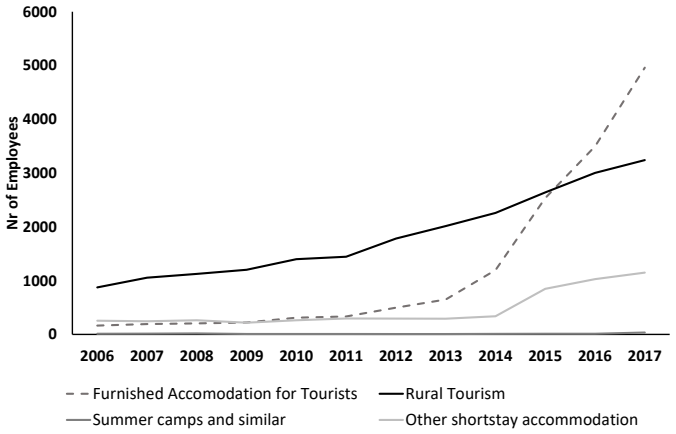

Figure 67: Number of employees - holiday and other short-stay accommodation categories

Source: IES.

accommodation for tourists category the number of firms in 2017 is more than 4 times the number in 2014. In the same period, the number of employees increased by more than 40%. This sector includes short-stay accommodation activities associated with short-term rental platforms (such as Airbnb), suggesting a significant impact of the development of this market on the Portuguese economy.[50]

50 These figures are likely to be under estimated as we are not considering the self-employed, which contribute also to the recent developments of the short-stay accommodation activity.

The proliferation of this type of accommodation has motivated the development of a distinct legal framing for this activity,[51] which has defined it as an autonomous category and further clarified the rules and requirements for the establishment and operations of this type of accommodation.[52]

While the increase in the number of firms providing these services is without doubt the result of market dynamics, the implementation of the aforementioned legal and fiscal framing may have influenced the increase in the number of firms registered in this activity, either by raising awareness of the business opportunity, creating incentives for individuals/organizations who already had operations to move out of the parallel economy and the transformation of other touristic enterprises who in light of the new legal framework decided to move to short-stay accommodation activities.

Airbnb started in 2008 as a simple concept that combined economic benefits for travelers and for residents of tourist areas. However, nowadays it has an expressive presence in tourism destinations, with positive and negative impacts. In the social and cultural impact of tourism we distinguish increased availability of facilities – infrastructure, retail, entertainment – on the positive side, and increased competition for the use of these and previously existing facilities – e.g. parking space – on the negative side (Quijones, 2015; Croft, 2015).

4. Firm survival

Establishments at large tourism destinations have a higher survival chance than those at smaller destinations because the degree of product differentiation, as well as the rate of innovation and productivity, typically increases with size (Ritchie and Crouch, 2005). A large supply of hotels in the same region means that multi-unit businesses are less exposed to idiosyncratic demand shocks, as a sudden rise or drop of customers in one business operation is more likely to be compensated by the opposite shock in another operation, resulting in a better overall occupancy rate. In other words, a large supply of hotels helps to offset firm-specific fluctuations in demand. In the tourism sector, characterized as it is by many small businesses and a highly fragmented supply, destinations with a few market leaders in combination with many small businesses are likely to enjoy relatively stable market conditions. Hence, we expect survival rates of incumbents to be higher in more concentrated markets.

51 Decree-Law nº128/2014, of August 29

52 Although it is not compulsory to create a firm to provide short-stay accommodation services, individuals may opt to do so for fiscal or logistic reasons.

Tourism firm's long-term survival may rely more on overall strategic-level innovativeness that produces dynamic capabilities, which in turn enhances the development of innovations, and less on actual innovations (Abernathy and Utterback, 1978; Trott, 1998). Relatively little reported empirical research details how firms can achieve firm-level innovativeness (Markides, 1998), remaining a central dilemma for most small firms.

In the context of the Portuguese economy, between 2008 and 2016 the survival rates of firms in the *Mainly Tourism* category were the largest (displaying survival rates between 93.8% and 95.3% over this period), followed by *Manufacturing*, *Total Tourism* and *Services* (the latter displaying survival rates between 93.4% and 92.0%).[53]

Interestingly, according to Table 20 *Mainly Tourism* displays the highest birth rates between 2011 and 2017 (18.95% in 2017), which are significantly higher than the birth rates of the other three categories considered. *Manufacturing* presents a relatively stable rate of growth between 2008 and 2017 (between 5.4% and 7.3%). The death rates across the four categories considered are not very different, although *Mainly Tourism* seems to display the lowest rates (5.9% in 2015) and *Total Tourism* the highest between 2011 and 2015 (between 7.4% and 7.8%).

Table 21 shows that the average age of firms has been increasing in the *Services* and *Manufacturing* categories, whereas since 2013, it seems to be decreasing for *Total Tourism* and since 2011 for *Mainly Tourism*. The decrease observed may be related to the high birth rates observed in these categories since 2011. Using the median, which is robust to more extreme observations, Table 21 shows that *Services* is generally the category with the lowest median age over the sample considered and that *Manufacturing* displays the highest.

Similarly to average and median age, we also observe from Table 22 that *Manufacturing* firms display the highest average and median age upon death and again Services in general the lowest. Note that *Mainly Tourism* is the second category with highest average and median age upon death.

Studies on firm survival in the manufacturing and service industries have revealed several 'stylized facts'. An entrant's initial size seems to have a positive effect on its duration. The probability of exit declines with size and age. There may be several reasons why young and small firms are exposed to a higher risk of exit. Older and larger firms often have more resources (capital and human) and more

53 Survival rate is defined as the share of firms operating in year t-1 that also operate in year t, conditional on them having the same main activity in both periods (NACE REV.2 2-digit code).

Birth rates	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Services	10,90%	9,09%	10,25%	10,04%	8,92%	9,66%	9,39%	10,45%	10,28%	11,05%
Manufacturing	6%	5,43%	5,56%	6,66%	6,40%	7,16%	6,81%	7,31%	6,62%	6,17%
Total Tourism	7,97%	7,55%	7,69%	8,61%	8,60%	9,80%	9,34%	10,68%	10,60%	11,63%
Mainly Tourism	7,49%	8,13%	8,29%	10,56%	11,36%	11,75%	12,13%	15,98%	15,82%	18,95%
Death rates	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Services	5,72%	6,36%	7,69%	7,76%	6,88%	7,63%	7,81%	7,24%	7,18%	7,02%
Manufacturing	5,43%	5,98%	7,42%	7,57%	6,29%	7,56%	7,14%	5,95%	5,94%	6,03%
Total Tourism	4,98%	6,12%	7,05%	6,96%	6,18%	7,63%	7,70%	7,37%	7,37%	7,79%
Mainly Tourism	3,78%	4,51%	5,29%	5,68%	4,84%	5,78%	5,62%	5,16%	5,37%	5,91%

Table 20: Birth and death rates

Notes: A firm is considered to be “born" in year t if it has not operated before or has not operated in the previous two consecutive years. Additionally, a firm is considered to be born in a given group if it changes its main activity into that group (NACE REV.2 2-digit code). A firm is considered to “die" in year t if it does not operate in year t+1 nor t+2. Additionally, it is considered to die if it changes its main activity (NACE REV.2 2-digit code). The results for the service sector exclude total tourism.

Average age	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Services	10,51	10,58	10,71	11,03	11,34	11,51	11,83	11,98	12,09	12,10
Manufacturing	14,16	14,48	14,81	15,26	15,67	15,86	16,13	16,19	16,31	16,37
Total Tourism	14,38	14,55	14,77	15,08	15,38	15,48	15,68	15,61	15,50	15,28
Mainly Tourism	13,88	14	14,18	14,22	14,43	14,29	14	13,68	13,16	12,37
Median Age	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Services	6	7	7	8	8	8	9	9	9	8
Manufacturing	10	11	11	11	12	12	12	12	13	14
Total Tourism	8	8	9	9	10	10	11	12	12	11
Mainly Tourism	10	10	10	10	11	10	10	10	9	7

Table 21: Average and median age

Note: Firm’s average and median age in years.

managerial experience. Such firms are better in withstanding external shocks. Furthermore, older and larger firms will typically have more market power and endurance. Older and larger firms are also more likely to be diversified and therefore less susceptible to fluctuations in demand. Furthermore, sunk costs such as fixed investments in tangible and intangible assets lower entry and exit barriers and therefore improve the survival chances for tourism businesses already in the market (Bull, 1997).

Average age	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Services	7,79	7,79	7,86	8,17	8,04	8,34	8,55	9,03	9,19	9,65
Manufacturing	12	11,92	12,18	12,91	13,37	13,6	13,68	13,26	13,88	13,86
Total Tourism	9,17	9,36	9,06	9,73	9,38	9,92	10,48	10,98	10,67	10,91
Mainly Tourism	12,77	10,29	12,6	10,84	10,69	11,3	10,74	13,5	10,97	10,2
Median age	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Services	5	5	5	5	5	5	5	6	6	6
Manufacturing	8	8	8	8	9	10	10	10	10	9
Total Tourism	5	6	6	6	5	5	6	6	6	6
Mainly Tourism	8	7	8	8	7	6	7	8	7	6

Table 22: Average and median age upon death

Notes: Age in years. A firm is considered to "die" in year t if it does not operate in year t+1 nor t+2. Additionally, it is considered to die if it changes its main activity (NACE REV.2 2-digit code).

5. Final remarks

This Section describes the recent firm dynamics in tourism related sectors in the Portuguese economy. We show that the tourism related sector is increasing and growing its importance in the Portuguese economy. Moreover, within the tourism activities we provide evidence on the increasing importance of the "new" short-stay accommodation activities.

Therefore, one of the current challenges for policy makers relies on the significant growth of the sharing economy in the tourism sector. Shared accommodation arrangements are the most well-established, with platforms such as Airbnb leading these developments. In fact, these digital platforms are challenging traditional operators, through significant competition to traditional tourism service providers. This is clearly highlighted by an OECD report about Tourism Trends and Policies published in 2016. In this context it is important to keep in mind that different actors are affected in different ways. More specifically, it is critical for tourism policy makers to understand how they should approach the sharing economy in areas such as regulation, taxation, and economic growth.

Finally, the demography of tourism firms does not seem to be strongly different from that of other main economic sectors. This conveys the message of tourism being a mature activity, not necessary riskier or more hazardous than other businesses. Therefore, there is room for gains in terms of productivity, and a further potential positive contribution to the Portuguese potential output.

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