EVALUATION OF THE SERVICE STRUCTURE AVAILABLE FOR TOURISTS IN SMALL TOWNS OF LATGALE REGION

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The role and significance of the tourism sphere in the spatial development has been analysed and examined in various authors’ works, however practical research of this field is significant for every area offering tourism services. In this article the structure of services available for tourists in small towns of Latgale region is analysed; its evaluation is provided.

Towns of Latgale region are small rural towns in the number of inhabitants and the attraction of tourists is an essential source of income for local enterprises and inhabitants. That is why it is important to summarise and find out which services are used by the guests of Latgale region without direct tourism goals and how vital they are in the whole region.

Key words: tourism, services available, small towns, city attractiveness.
JEL codes: L8, R1.

Introduction

Towns in the Baltic States, incl. Latvian towns, are relatively small and it causes the shortage of the critical mass for creation of the definite demand with all ensuing consequences. In the given situation the solution for favouring attractiveness of towns is to look for comparative advantages and specialisation. In the frame of the project “Lingvo-Cultural and Social-Economic Aspects of Territorial Identity in the Development of the Region of Latgale” the author conducts research of the criteria of town attractiveness, factors that influence it and possible evaluation methods. The previous analysis of scientific research makes it possible to draw a conclusion that there is no unified approach and system of criteria, which would be universal and applicable for all towns and areas. Moreover the previous research showed various approaches in evaluation of choice of criteria based on the identity of the areas and searching for advantages of competitive capacity, which is the main challenge for the administration of any town or area. In the present studies the opinion about the necessity in the subjective approach in evaluation of town attractiveness is dominating.

The aim of the research is to analyse the service structure that is available for tourists in small towns of Latgale region in order to provide its evaluation and to work out recommendations.

Methodology of investigation

In this research the author used general scientific research methods: information analysis and synthesis, logically constructive, monographic, questionnaires, data grouping and graphical display techniques.
The basis of the investigation is the pilot research done in the framework of the project “Lingvo-Cultural and Social-Economic Aspects of Territorial Identity in the Development of the Region of Latgale” (Nr. 2009/0227/1DP/1.1.1.2.0/09/APIA/VIAA/071), which was financially supported by the ESF. The project work group devised definite criteria for evaluation of town attractiveness. In the project it is foreseen to organise surveys for 3 target groups: inhabitants, entrepreneurs and tourists. In the given article the author is analysing the results of the pilot research, which were received in the tourists’ survey (55 respondents) in small towns of Latgale Region in the first half of 2010.

Results

When arguing about the significance of attractiveness for tourists it is necessary to note that the role and importance of the tourism sphere in the spatial development has been analysed and investigated in many authors’ works, which covers a wide geographical territory. As an example we can mention D. O. Awaritefe’s research “Destination image differences between prospective and actual tourists in Nigeria”, in which the evaluation of the tourist destination attractiveness is based on the present resources, incl. tourism type, research, as well as the research analyses the impact of some factors (infrastructure, transport means and costs, level of prices, quality of services, communication facilities, social and cultural aspects, etc.) on the choice of present and potential tourists (Awaritefe, 2004). We can mention a different research done by R. C. Runyan “Tourist dependent small towns: Understanding competitive advantage”, where 2 types of towns are investigated (tourism sphere dependent towns and towns that do not depend on tourism), how they use their resources (town image, positioning, mix-retail trade, “magnetshops”) in realisation of the competitive capacity advantages. This research unlike other investigations emphasises the interaction between the tourism sphere and the general town economic development (Runyan, 2006). The existing scientific and practical research position the tourism sphere as an essential type of economic activity, which has a positive influence on the town development.

J. Jansson and D. Power in their publication “The Image of the City – Urban Branding as Constructed Capabilities in Nordic City Regions” reflect their investigation into city brands. These authors believe that it is necessary to choose the competition market or level when managing the town brand:

- global cities should compete in the international enterprise management or international fashion, movie, biotechnology or computer science centre establishment;
- towns of regional importance can compete in creation of local or national companies, state departments and institutions, organisation of national events;
- the goal of small provincial towns is to attract tourists and favour the inhabitants’ staying (Jansson, 2006).

Towns of Latgale region are small rural towns in the number of inhabitants, therefore tourist attraction there is an essential source of income for local enterprises
and inhabitants. Consequently, it is important to summarise and find out which services are used by guests of Latgale region without direct tourist goals. Furthermore, some of these services are general infrastructure objects, availability and quality of which depends on the state and regional development policies. One of the aims of the survey was to obtain quantitative data on the use of available services. Tourists were asked to provide information on the use (or not) of the following services while staying in small towns of Latgale:

- information about the city (maps, brochures, telephones etc.);
- medical services;
- nutrition institutions;
- ramps for people with disabilities;
- shopping possibilities (supermarket);
- public transportation;
- road / pavement quality;
- hotel / accommodation offer;
- mobile (cellular) communication;
- Internet access;
- cultural events;
- entertainment venues (bars, clubs, discos);
- signs, maps;
- tourist information centre.

As a result, some additional information, which is not going to be analysed in a detailed way in this article, was obtained and generalized. The results are summarized in figure 1, where the percentage of people, using the particular services, from the total number of respondents can be observed.
More than a half of all respondents used services which directly depend on the tourism sphere, i.e. information about the city (maps, brochures, telephones etc.) – 69%, nutrition institutions – 60 %, shopping opportunities – 58%. Similarly 64% – 73% used offers of the general infrastructure – mobile communication, roads and pavements. Relatively less respondents – 24% used such services as public transport and the Internet access points. Few respondents used hotel accommodation. It can be easily explained by two aspects. Firstly, only 20 of 55 respondents, regarding the gathered information, stayed in these towns for more than one day and, secondly, the respondents were Latgale small town visitors not rural tourists. Respectively, entertainment venues (bars, clubs, and discos) were visited by 35% of respondents and cultural events by 47%. The amplitude of the age of respondents is from 17 to 65 years old, accordingly this explains different interests and tourism goals.

Conclusion

As a result the following conclusions can be drawn:

- towns in Latgale region, according to the number of inhabitants, are small towns, therefore tourist attraction there is an essential source of income for local enterprises and inhabitants. Consequently, it is important to regularly summarise and find out which services are used by guests of Latgale region without direct tourist goals;
- there are general infrastructure objects in the area that are situated in tourist available infrastructure environment, the existence and quality of which highly depend on national and regional development policies;
- tourists in Latgale region stay in towns for a relatively short period of time (the majority of tourists – 1 day), that is why it is of great importance to create new tourism products that would encourage tourists to stay longer in this region, thereby enhancing the region's overall development;
- regional tourism policy makers should pay more attention to such a tourism product as shopping possibilities and this requires additional market research and searching for niches (for instance, ecologically clean food trade).

Literature

LATGALĖS REGIONO MAŽŲ MIESTŲ TURIZMO PASLAUGŲ STRUKTŪROS ĮVERTINIMAS

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Tyrimo tikslas – turizmo paslaugų, kuriomis naudojasi Latgalės regiono mažų miestų gyventojai, struktūros analizė. Analizės rezultatai grindžiami autorės atliktais eksperimentiniais tyrimais, vykdant Europos Sąjungos fondo finansuojamą projektą „Teritorinio identiteto lingvokultūriniai ir socialiniai-ekonominiai aspektai Latgalės regiono plėtros aspektu“. Tyrimo rezultatai rodo, kad turistų pritraukimas yra svarbus Latgalės regiono įmonių ir gyventojų šaltinis. Siūloma nuolat vertinti turizmo paslaugų naudojimo netiesioginius tikslus, kas galima vystyti bendrą regiono plėtrą turizmo kontekste.

Raktiniai žodžiai: turizmas, teikiamos paslaugos, mažieji miestai, miesto patrauklumas
JEL kodai: L8, R1.
FINANCIAL STRUCTURE OF AGRICULTURAL FIRMS

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Recent years’ agri-policy developments have brought in structural changes in investment and financing in agriculture. The purpose of the paper is to examine the developments in agricultural firms’ financial structure, analysing trends in financing structure of Estonian agricultural firms in 1996–2008. The problem is, if sector’s higher debt level causes higher leverage on farm level, and does debt ratio having influence on farm profitability. The analysis is based on data of Estonian Statistics, and uses the method of financial ratio trend analysis. The results are presented on average enterprise basis. Results show that debt levels have increased gradually, without causing specific changes in debt-to-equity ratios. Net income is very floating and the volatility of the return on equity is high. In such a risky situation the agricultural firms should be careful in attracting additional debt capital.

Key words: agricultural firms, agricultural finance, financial structure.
JEL codes: Q320; Q140.

Introduction

Recent years structural changes have lead Estonian agriculture to increasing agricultural investments. Investments need to be financed, and the result of external financing is increasing debt levels (figure 1). The financial structure of agriculture is relevant for agricultural firms, lenders, and policy analysts. All of them need information about financial structure of agricultural enterprises in order to make justified decisions about farm viability. Over the last decade the issues of financial structure of agricultural firms have become important as the sector is more and more business-oriented, neglecting the traditional importance of rural life style. The present paper focuses on agricultural firms with focus on financing structure with regard to be competitive. On sector level, politicians view financial position of agriculture as it relates to rural life sustainability.

The need of keeping under control financial structure is essential, as agricultural firms have been influenced by such factors as expected net income and risk level, interest expenditure, attitudes of entrepreneurs and lenders towards risk as well as the structural specialities of agricultural firms. Financial theories claim that debt use brings about an increase in the return on equity and its variability.

The current article is based on empirical study, and examines financial structure of Estonian agricultural firms over the period of 1996–2008, giving an overview of debt levels, asset and capital structure, and farm profitability. The problem is, if sector’s higher debt level causes higher leverage on farm level, and
does debt ratio having influence on farm profitability. The analysis of financial structure is based on the assumption that the more fluctuations there are in the relative importance of loans in firm financial structure the more changes there are in the return on equity but also in the return on assets.

![Graph showing Loans granted by agriculture, hunting and forestry 2004–2008, loan stock quarterly](image)

**Figure 1.** Loans granted by agriculture, hunting and forestry 2004–2008, loan stock quarterly

Successful farm business performance is characterized by significant growth over time in agricultural firm’s equity capital. Such growth directly reflects the accumulation of wealth, enhancement of solvency positions expanded credit capacity, and strengthening of future income-generating capacity.

Financial leverage in agricultural firms is affected by such factors as expedient profit and risk level, interest charges, the attitude of entrepreneurs and lenders towards risk as well as the structural peculiarities of agricultural firms. (Hardaker, 1997) Pursuant to the financial theory, in the above-mentioned circumstances financial leverage increases the return-on-equity and its variability. A well-known fact – the more unstable the relative importance of loans in the firm’s capital structure, the more changes there are in the return-on-equity as well as in the gross estate – forms the basis for this analysis of financial leverage.

Previous papers concerning agricultural firm size and capital structure empirical studies are dealing with Latvian agricultural companies using FADN data (Jakušonoka, 2007), Canadian Farm Petroleum and Animal Feed Co-operatives. (Hailu, 2007). Recent studies about optimal capital structure, equity capital markets, entry into production agriculture by young and beginning farmers, and tax issues, remain important as policy changes and research techniques evolve. (Featherstone, 2005). J. Zhao (2008) develop model for both conceptual and empirical implications of the pecking order, trade-off, and signalling theories on farm business financing, investment, and expansion process.
Analysis on financial structure is not just computing the ratios, but also the complex of problems of risk-return relationship, agency theory, and owner’s wealth maximization. The farm owner needs to be fully aware of the relationship between financing decisions, profitability, and risk. Farm income variability is relatively high, in spite of governmental support.

Data and method

This analysis utilizes time-series data set of Estonian farms, 1996–2008, representing 1600 Estonian agriculture sector enterprises. The results are presented on average enterprise basis. The source of the data is Statistic Estonia. Statistics Estonia is a government agency at the area of administration of the Ministry of Finance. Official statistics is in compliance with international classifications and methods. Official statistics is in accordance with the principles of impartiality, reliability, relevancy, profitability, confidentiality and transparency. In producing statistics, Statistics Estonia is guided by the Official Statistics Act.

Income statements and balance sheets constitute the framework for analysis of agricultural firm financial structure. The method of analysis for this study is the use of financial ratios representing investment and financial structure which include: asset structure, debt-to-equity ratio, return on equity. These ratios are presented below. The aim is to establish the responsiveness of debt-to-equity as performance indicator to financial structure to return on equity as a measure of profitability. Return on equity is net income divided by equity capital.

Results

Changes in Agricultural assets. Assets are economic resources of the firm. They constitute the present composition of invested capital. Advanced farming techniques require new investments in assets. The amount of assets both in nominal and real values has grown gradually through the period. The average nominal growth has been about 37% per year, and real growth about 20% per year throughout the period. The assets can be divided into current assets and fixed assets. Comparing to 1996, in 2008 the fixed assets had doubled (Figure2).

Figure 2. Agricultural assets, 1996-2008, thousands EEK
The structure of assets of the agricultural firms has changed. Working assets have proportionally diminished comparing to fixed assets (Figure 3). We can clearly distinguish three periods: 1996–1999; 2000–2003, and 2004–2008. During the nineties agricultural assets deteriorated more than income. According to research made by K. Lemsalu (2001) the value of assets rose at an average annual rate of about 12 percent, peaking at more than 4 billion Estonian kroons in 1988. Net sales increased twice in absolute figures, but it did not brought growth in real value. Since 1995 agricultural assets declined from 5,0 percent to 2,8 percent level of all sectors by the end of 1998. Agricultural firms were not able to invest (Lemsalu, 2001).

Early 2000-s were characterized by changed tax environment, agricultural policy changes, and increasing profit levels. This made investments in fixed assets more procurable to agricultural firms. Since 2004, becoming a member of EU, large-scale investment subsidies become available, and the effect can be clearly seen in growth of fixed assets.

![Figure 3. Current assets and fixed assets 1996–2008, % of total assets](image)

A firm’s external financing need depends on the magnitude of its internal cash flows relative to its investment opportunities. If the firm has sufficient market power or faces high demand, it may be able to generate sufficient cash flow to finance investment internally. Agricultural firms are more likely to grow at rates that require them to obtain long-term credit or equity. It is more and more common for them to raise long-term capital with financing investments by long-term external debt.

**Changes in financial structure.** Equity growth is influenced by a farm’s financial leverage position. The effect of financial structure decisions on equity growth is represented by the farm’s debt-to-asset ratio. (Figure 4). The importance of debt increased rapidly at the end of 90-s. With change in economic conditions D/A ratio have maintained relatively constant during the period of 2000–2008.
The more a firm borrows, the higher the financial leverage. As long as the business entity generates returns which exceed the cost of debt capital, leverages works in a positive manner. Intensive use of debt causes a higher probability of risk for the enterprises. Interest rates have been stipulated in the contract and the bulk of the loan and the interest should be paid back regardless of the fact whether the firm is making a profit or not. Debt level, i.e. both short-term liabilities and long-term liabilities has increased gradually (Figure 5).

Financially stressed farms often are associated with higher leverage positions than other well-performing farms. Successful farms are able to manage higher leverage ratios only when the returns generated from assets consistently exceed the cost of borrowing (Boessen, et.al.).

Higher debt levels do not necessarily stimulate growth if they translate to serious financial stress. Increased use of debt capital and unpredictable changes in government support programs makes it more difficult to farmers to determine the best combinations of financial structure and business practices.

Following the idea that intensive use of debt causes a higher probability of risk for the firms, according to Mayer (1990):

1) retentions are the dominant source of financing in all firms;
2) average firm does not raise substantial amounts of financing from security markets in the form of short-term securities, bonds or equities;
3) majority of external financing comes from bank loans.
In general, agricultural firms attracted external financing in reasonable amount during the period of 2000–2008, and this gave the chance to maintain without any specific change their debt-to-equity ratio (Figure 6).

![Figure 6. Debt and equity 1996–2008, % of total assets](image)

**Changes in return on equity.** It is generally agreed that economic welfare is related to annual net income and net worth relative to the financial needs of firm. In order to show how the growth in the return of equity would be affected by the changes in the return on assets, the return on equity in different years is expressed. (Figure 7) Return on equity is dependent on net income. The higher the net income, the higher the return on equity.

![Figure 7. Return on equity and return on assets ratio 1996–2008](image)

Results show that net income is very floating, that causes the volatility of the return on equity. In such a risky situation the agricultural firms should be careful in attracting extensively debt capital.

**Conclusions**
1. The analysis of changes in financial structure of agricultural firms is based on the assumption that the more fluctuations there are in the relative importance of loans in firm financial structure the more changes there are in the return on equity but also in the return on assets. Results show that the structure of assets of the agricultural firms has changed and the importance of fixed assets has risen. Working assets have proportionally diminished comparing to fixed assets. Debt-to-asset ratio has maintained relatively constant levels during the period of 2000–2008.

2. Net income is very floating, that causes the volatility of the return on equity. In such a risky situation the agricultural firms should be careful in attracting extensively debt capital.

References


ŽEMĖS ŰKIO ĮMONIŲ FINANSŲ STRUKTŪRA

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rezultatai parodė, kad skolos lygis didėjo palaipsniui, nesukeldamas ypatingų skolos ir nuosavo kapitalo santykio pakyčių. Grynosios pajamos sparčiai kito nuosavo kapitalo grąža, todėl esant tokiai rizikingai situacijai žemės ūkio įmonės turėtų būti atsargios pritraukdamos papildomą skolos kapitalą.

Reikšminiai žodžiai: žemės ūkio įmonės, žemės ūkio finansai, finansinė struktūra. JEL kodai: Q320; Q140.