

Managing Tourism: A Municipal Enterprise and Unfulfilled Financial Hopes

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The municipality of Coimbra, located in Portugal, commissioned, in 2004, a study about tourism promotion in its area of influence. The report recommended that activities related to tourism promotion should be taken out of the structure of the council and a municipal enterprise should be set up. The purpose of this paper is to present how the enterprise was justified at its inception, hopes expressed in the action plan were too optimistic, and reasons for the unfulfilling of expectations. The analysis will focus on problems arising in the setting up and implementation phases, and will draw lessons for public entities engaged in tourism promotion with strategies of setting up autonomous businesses.

INTRODUCTION

Tourism and its related economic activities are a strong factor in the development of national and local economies (World Tourism Organization, 2011). Thus, strategies to implement effective policies that promote tourism growth and have a positive impact on development are increasingly common. Public and private sector bodies are usually called into action, because of a shared belief that, by combining their capabilities, stronger policies can emerge (Presenza and Cipollina, 2010).

The municipality of Coimbra – a town located in the Portuguese Central Region – commissioned, in 2004, a report on the state of the tourism promotion in its area of influence. The report recommended that activities related to tourism promotion should be taken out of the organizational structure of the council, and a municipal enterprise should be set up. The main purpose of this paper is to present how the enterprise was justified at its inception, how hopes expressed in the action plan were, in our view, too optimistic, and the reasons for the unfulfilling of such optimistic expectations. The analysis will focus on problems arising in the setting up and implementation phases, and will draw some lessons for the local public sector bodies when engaging in tourism promotion using a strategy of setting up autonomous enterprises.

The paper discusses, firstly, if at local government level, when tourism is an economic activity with a significant role in a certain council, the public sector (mainly the municipality) should assume the leading role in implementing a successful tourism plan and analyses the pros and cons of such a strategy. A case study is then used to present expectations created by setting up a separate municipal enterprise and what factors were critical in the unfulfilling of stated goals.

Given the heavy competition in the tourism sector on a worldwide basis, Portuguese regions need to have tourism strategies and action plans that can succeed (Ladeiras et al, 2010). These strategies usually work better if they are based on the cooperation between the public sector and private actors. At the local level, the setting up of municipal enterprises to deal with tourism promotion has to be based on detailed analysis, and special attention need to be addressed to the sustainability and consistency of financial

projections. When municipalities and tourism enterprise managers have difficulties in attracting business from private economic agents and are not able to diversify risk by wooing private shareholders, the probability of an unsuccessful experience increases, as shown by the case.

Municipalities, when discussing the implementation of tourism strategies, should be particularly aware of two factors: the consistency of operating and financial forecasts, and the critical point of bringing together public and private actors to increase the probability of a successful venture. The paper can be useful for local government officials when deciding about tourism promoting strategies and the best ways to implement them. Particular pitfalls are highlighted in the paper, contributing to a better understanding of developing tourism promotion programs when the public sector is involved.

The paper contributes to the literature by, based on a case study, drawing a more general lesson to public sector decision makers when dealing with the frequent situation on how to implement local strategies for tourism development. We believe that most of the complexities highlighted in the paper, and the reasons for the failure of the strategy, can be a useful warning sign for public decision makers.

To address the topic under analysis the paper is organized as follows: section 2 presents a review of relevant literature; section 3 deals with tourism as a central economic activity and the role of the public and private sectors in defining and implementing promotion strategies; section 4 focuses on the research process and method; section 5 presents the case study that is at the core of the paper - the setting up of a municipal enterprise to promote tourism, its evolution and complexities regarding the relation between public and private actors; section 6 presents a discussion and broader implications of the issue; section 7 concludes.

LITERATURE REVIEW

Tourism is a key economic sector in the world economy. Tourism activities around the globe and the economic sectors that are connected with them are at the forefront of growth and development strategies of many regions and countries (World Tourism Organization, 2011).

At a macroeconomic level, the touristic sector produces growth, income and development. Cities and regions can be saved from decline by well-conceived strategies for tourism development.

In the European Union, the tourism and economic growth relationship was researched, among others, by Mello-Sampayo F. and Sousa-Vale S. (2010) for a panel of 31 European countries over the period 1988–2010. The authors concluded that there is robust evidence of a relation between tourism and GDP in European countries. Their results also show that tourism development has a higher impact on GDP in the South than in North.

Balaguer and Cantavella-Jordá (2002) analyzed the role of tourism in the Spanish economic development. They found empirical evidence of growth originated by the touristic sector, with a strong economic multiplier. Also, the income level of regions where tourism had a greater role benefited from such position.

For the Latin American case, Eugenio-Martín et al (2004) studied the impact of the tourism sector in income and employment. They present evidence that production and income related to tourism activities are important components of increasing living standards. Additionally, they found support for the hypothesis that employment rates are positively affected by the development of the touristic sector in particular regions.

In the case of Portugal, international tourism receipts represented, in 2010, 6% of GDP and 7.5% of employment (World Tourism Organization, 2011; Banco de Portugal, 2011; Varum et al, 2011).

Tourism has many sides as an economic and social activity. Its contribution to GDP and employment can be high. Its impact on particular regions or communities can be very important in terms of raising living standards. And it can also have a huge impact on the heritage of many places, not always for good. Such a wide economic and social influence attracts the attention of governments, be it a national, regional or local levels (Fazenda et al, 2010; Ladeiras et al, 2010; Font and Ahjem, 1999).

Given the growing importance of tourism, its relevance as a management topic is regularly highlighted. Authors and organizations whose focus is on the interplay between tourism and the public

sector (Varum et al, 2011; Tourism Insights, 2011; Presenza and Cipollina, 2010; OECD, 2008) usually stress the fact that it is quite difficult for the myriad of small or micro entities engaged in the tourism business to have the critical dimension to develop a wide array of activities, essential to successful strategies.

Examples of such activities are plenty. The identification of national or regional strategies in terms of branding or market segmentation; the promotion of particular destinations at the national or international level; the access to funding in order to sustain such activities; and the setting up public bodies that regulate tourism activities to deal with the environmental, historical or cultural impact of touristic flows and ensure that it develops as sustainable activity (Font et Ahjem, 1999; Turismo de Portugal, 2011).

At the local government level, when tourism is an economic activity with a recognized importance in a certain council, a thorny question usually arises: should the public sector (mainly the municipality) assume the leading role in all the mentioned activities to implement a successful tourism strategy? Or, given the usual features attributed to enterprises that fall outside the municipalities' umbrella (more flexible, less encumbered by financial rules and other legislation) should municipalities, in cooperation with the private sector, set up separate entities to develop such strategies? (Palmer, 1996; Dredge, 2006).

Besides of the direct the role of the public sector, a growing interest in the involvement of private economic agents has been gaining ground. Some forms of partnerships have been fashioned in several countries, as a way to maximize the impact of strategies based on tourism to develop regions or countries (Weiermair et al (2010).

This trend has not been without dangers. Aspects such risk allocation between public and private bodies, the alignment of strategic aims of different entities, performance criteria to be established and regularly appraised, and the financial commitments of involved partners, are fields where pitfalls have happened.

In Portugal, in the last decade, after an earlier period when tourism development was seen a typical public sector duty, the trend was clearly one that favored the setting up of separate entities, aiming at building partnerships between municipalities and the private sector. The main objective was the promotion mutual advantageous ways of capturing the potential benefits of tourism as a vector for sustainable development (Fazenda et al, 2010; Ladeiras et al, 2010). Coimbra was no exception, and in 2005 a municipal enterprise was set up with this objective.

TOURISM AS A CENTRAL ECONOMIC ACTIVITY AND THE ROLE OF THE PUBLIC AND PRIVATE SECTORS

In this section the importance of tourism as a key economic activity, at the world level and to the Portuguese economy, will be highlighted, in order to justify its growing status as a topic of interest to studies focusing on the public sector.

Tourism in the World: Some Trends

According to the World Tourism Organization (2011), tourism's contribution to the world GDP is estimated at around 5%. On employment terms, its direct and indirect jobs represent between 6% and 7% of total worldwide jobs. In many economies, such as small islands and some developing countries, tourism is the biggest economic activity.

In spite of occasional setbacks, international tourism has shown a strong growth: 25 million tourists in 1950; 277 million in 1980 and 940 million in 2010. (World Tourism Organization, 2011).

In 2010, and reflecting the state of the world economy, recovery of arrivals was stronger in emerging economies (+8%) than in advanced ones (+5%). What is remarkable is the fact that, even in more fragile economies, tourism flows do not show signs of abating, giving it a resilient nature, quite important in terms jobs and income, in times of economic hardship.

Tourism can play an important role in creating jobs for unskilled or semi-skilled workers, as well as having a multiplier effect in other economic sectors that are closely related to it (e.g., construction, travel,

leisure). For many countries tourism is a key export and a precious source of foreign exchange (OECD, 2008).

On a macro level, the recent rise of China as a tourism destination is the most relevant significant change. According to the World Tourism Organization, (2011, p.5), “*the most significant change among the top ten by international arrivals in 2010 was the rise of China to third position, ousting Spain, having overtaken both the UK and Italy during the past few years*”.

The OECD (2008) reports a growing movement of retirees from high income to lower income countries, not just for holidays but for longer residence periods. Some positive effects of this trend in travel infrastructure, employment for locals and engagement in civic activities are mentioned. On the other hand, prices of real estate and the cost of living can increase with the influx of such groups.

What is certainly foreseeable is that tourism is poised for even stronger growth, and every country is trying to ride this trend to get economic and social gains from a worldwide phenomenon. This is also true for Portugal.

Tourism in Portugal: A Short Brief

Activities directly related with tourism represented, in 2010, circa 6% of GDP and 7,5% of jobs in Portugal. By 2020 tourism, and its direct and connected activities, is expected to contribute 17% of GDP and 23% of total jobs (Varum et al, 2011).

The UK, France, Spain and Germany are the main countries originating tourist flows to Portugal. New destinations in both sides of the Mediterranean, Latin America and the Caribbean, and Africa, are putting a significant pressure on the Portuguese touristic sector. However, the attractive factors usually associated with Portugal are still holding reasonably well in face of strong competition. (Eusébio, 2006).

According to Turismo de Portugal (2011, p. 16), the cumulative annual growth rate (CAGR) of tourists visiting Portugal between 2006 and 2010 was 2,3%. The strategic plan for 2011-2015 conceived for the Portuguese tourism development centers on moving from a “sun and beach” country to a renewed emphasis on heritage, gastronomy, wine and nature. An international effort to attract higher income visitors is highlighted, with the central government playing a key important role in partnership with the most important private players (e.g., hotel associations, travel agencies, regional development agencies).

Table 1 shows some economic indicators related to the Portuguese tourism sector.

TABLE 1
SOME INDICATORS RELATED TO THE PORTUGUESE TOURISM SECTOR

	2008	2009	2010
International tourism receipts (USD million)	10.943	9.635	10.090
Tourism contribution to the external balance (€ million)	4.501	4.196	4.658
Tourism contribution to the external balance (% of GDP)	2,6	2,5	2,7

Sources: Own elaboration based on World Tourism Organization (2011) and Banco de Portugal (2011)

This short brief on the Portuguese tourism sector clearly shows its economic importance in terms of GDP, jobs and external balance. At the same time, the comparative advantages the country offered in the past – a relatively cheap sort of seaside vacation - are under severe threat. New ways of promoting

Portugal as a destination and attract new segments of visitors are moving to the core of tourism development.

The Role of Public Sector in the Tourism Activity and the Involvement of Private Entities

This section will, firstly, present a very short view of the general worldwide trends related to the influence of the public sector in the tourism activity, the cooperation with private sector agents, and then focus on the recent Portuguese experience.

The Worldwide Situation

Font and Ahjem (1999) offer a rationale for the involvement of the public sector in tourism activities, stating that a purely free market based structure will not be optimal. The reasons for departing from a free market system in the tourism activity are several. First, many of the tourism players are small businesses that have not the scale to gather and process information regarding demand trends and tourists' preferences. Second, private profit maximization does not take account of environmental and social impacts of tourism. Additionally, the public sector owns and manages many of the tourism infrastructures (e.g., historical sites, natural parks) and can take into consideration potential conflicting views on the use of such infrastructures.

The authors argue that tourism plans should consider these questions and be implemented by a public body. However, they also underline that results can be improved with the participation of private actors engaged in providing the products and experiences demanded by tourists.

Presenza and Cipollina (2010) and Pforr (2006) provide a characterization of the public sector role in tourism activity. Planning and marketing activities derived from this role require the involvement of public and private actors. This collaboration has important potential benefits:

- It enhances and legitimates the decision making process
- It can solve potential conflicts in a more efficient way
- It is a way for a better coordination of the activities of the stakeholders involved

The vital engagement of public sector in tourism planning and marketing is also stressed by Tourism Insights (2011), stressing the following roles: creating networks of businesses that are at the core of implementing wide strategies, providing support to the diversified types of actors that operate in the sector, and promoting and leading marketing initiatives, especially the ones that require scale and international clout.

Concerning tourism planning at national, regional or local level, there is a strong literature consensus about the need for coordination between public sector and private actors. (OECD, 2008; Ladeiras et al, 2010).

Only a supportive public sector combined with collaborative and aligned private interests can produce a combination of stakeholders that is a necessary condition to produce successful tourism strategies. The strategic planning process should be strongly participated in order to identify the involved stakeholders with the guidelines and action plans that emerge from such strategies.

The Involvement of the Portuguese Public Sector in Tourism Activity and the Engagement of Private Actors

The general consensus found in the international literature is also present in the research into tourism activity done in Portugal.

Turismo de Portugal (2011), in its strategic plan for 2011-2015, stresses that one of the key purposes of a public agency in the area of tourism is to function as a facilitator between public bodies and private companies, mainly in the planning and promotion phases.

Varum et al (2011) point that the need to control pressures towards the environment caused by some tourism related activities call for a strong public sector regulating involvement. Also, the qualification of the workforce employed in the tourism sector can be a priority that public entities can help to enhance.

On a more local scale, the regulation of real estate and construction industry are tasks where the intervention of public bodies is generally required.

On a more practically oriented research, Ladeiras et al (2010), focusing on the case of the Open Academy of Tourism, and Fazenda et al (2010), analyzing the case of the Douro Valley Tourism Plan, are both quite supportive of the partnership approach. The latter present a model of public intervention in the Douro Valley Tourism plan where, from the national to the local levels, instruments and policies are aimed at improving governance, provide strategic objectives and priorities and seeking funding for crucial initiatives.

Ladeiras et al also conclude that public entities working in the tourism area should promote partnerships between public and private organizations. But they also conclude with a note of caution, by stressing one important factor that created instability in the sector. This is related to the fact that, many times, elected or nominated public bodies design strategies and plans that, for lack of previous coordination with key private players, and absence of day to day involvement with the private sector, fail to achieve the desired results.

RESEARCH PROCESS AND METHOD

This paper describes and discusses the application of the case study methodology to a municipal enterprise that was deemed to foster tourism development in a Portuguese town and its surrounding region.

Case studies are an established research tool for management research (Yin, 2010). In the tourism area, case studies have been often used as a research method to highlight and discuss general trends in the sector (Ladeiras et al 2010; Weiermair et al 2010; Palmer 1996).

This methodology has the advantage of using detailed information about motives and concrete actions of parties involved. It places a high emphasis on the actual workings of a specific process, as it cannot produce generalized results based on statistical models. It analyses real life situations and aims at establishing some critical points that can be used as lessons for involved stakeholders, be they shareholders, managers, workers, and others.

In this research, the author acted as consultant-researcher, doing practice-oriented work in an organizational context (Ter Bogt and Van Helden, 2011). Our intervention was that of an expert called in the process of appraising the possible strategic decisions that local councilors had to take regarding the future evolution of the municipal enterprise. That is, presenting an outside view with potential solutions for a strategically and financially complex situation that the municipal enterprise was facing in 2011.

Our work can be categorized as ‘clinical research’, a branch of interventionist research which follows a problem-solving process, even if, in this case, we focused essentially at the problem identification, diagnosis and presenting a report that helped political decision makers to identify possible courses of action.

Advantages of case studies include lessons learned from field observations (Yin, 2010). To achieve such advantages, we have carefully analyzed the plan initially conceived to launch the municipal enterprise, worked with councilors, navigating the political spectrum and sensing different priorities for the enterprise, extensively analyzed the operating and financial information available, and worked with the enterprise’s staff to gauge the economic rationale behind financial numbers. A detailed knowledge of the enterprise business purposes and the constraints it faced because of its strong links with a political body, was also crucial to form an opinion about the potential outcomes of the process.

In line with what usually happens within qualitative research, we have additionally examined other forms of evidence in order to collect relevant information for researching the issue. We used the financial reports of the firm for the years called into analysis, the auditors’ opinions, and the management report was also useful to convey detailed information about the firm’s operations.

In the end, a report could be presented to the councilors, regarding possible courses of action that, in our view, were open and stating the causes for a not to promising start for the municipal enterprise. (Later we will address the issue of suggested actions).

The field work started in May 2011, and interviewing with interested parties happened during June-July. Our report was presented in September 2011.

THE CASE: A MUNICIPAL ENTERPRISE TO PROMOTE TOURISM, ITS EVOLUTION AND LESSONS LEARNED IN PUBLIC MANAGEMENT

Tourism in the Coimbra Region and Reasons for Setting Up the Municipal Enterprise

In 2004 the municipality of Coimbra commissioned a report on the state of the tourism sector in Coimbra and its area of influence, which is the Portuguese central region. Coimbra has a significant heritage, hosting a university created in the XIII century, several roman and gothic churches, is close to the seaside and also very close to two wine regions (Dão and Bairrada). Health care services are also a significant source of people flows to the town. All around the year, academic and religious festivities are also a source of attraction.

The mentioned report was very straightforward, by stating that all the factors justifying the attractiveness of Coimbra as a touristic destination were not being capitalized by the existing structure. One of its main recommendations was to set up an autonomous entity, with an important role for the municipality, but open to other actors.

According to the report, the new entity should have two overriding aims:

- Enhancing the “Coimbra” trade mark in the internal and external markets for tourism;
- Seeking diversified financing sources to sustain projected investments without increasing the financial contribution of the municipality relatively to previous levels, that is, when tourism promotion was under the municipality organizational structure.

As shown in tables 2 and 3, the financial projections shown: a profitable operation – with the exception of 2006 – a sustainable increase in equity, and a positive cash flow.

The report ended with the following words: *“Nonetheless some foreseeable financial difficulties, we are confident that with private sector involvement, the new enterprise has all the conditions to be a successful one, increasing the tourism activity in Coimbra and its region, creating wealth for all the tourism agents in the area”*.

**TABLE 2
SELECTED PROJECTED ECONOMIC AND FINANCIAL DATA
REGARDING THE NEW ENTERPRISE**

	2006	2007	2008
Revenues not dependent on the municipality	257.115,98	293.365,98	340.740,99
Total operating revenues	624.115,98	659.115,98	686.740,99
Net profit	-4.947,83	7.577,80	18.744,97
Total assets	1.664.058	2.381.289	2.379.815
Equity	70.052	77.630	96.375

Source: Own elaboration based on the “Report for the creation of the municipal enterprise”

TABLE 3
SOME ITEMS OF THE PROJECTED CASH FLOWS (€)

	2006	2007	2008
Annual inflow from the municipality	1.250.000,00	1.250.000,00	1.250.000,00
Subsidies from EU funds	1.324.500,00	1.326.375,00	1.356.000,00
Private clients' payments	305.968,01	349.105,51	405.481,78
Other inflows	512.672,49	497.233,79	432.884,42
Marketing promotion and other costs			
Marketing promotion and other costs	- 2.853.654,62	-2.860.772,52	-2.923.029,90
Personel costs	-404.381,52	-415.593,35	-427.141,54
Investments	-134.856,83	-23.800	0
Other outflows	0	-122.265,80	-93.855,30
Net cash flow			
Net cash flow	247,61	282,64	339,46

Source: Own elaboration based on the "Report for the creation of the municipal enterprise"

With such a confident report and these economic and financial projections, councilors approved the creation on the municipal enterprise. But, in our view, the fact that the municipality was the sole equity owner, and no private sector agents were involved in the planning and financing of the new venture, and committed to its strategy, was not a promising sign.

Thus, at its inception, the new entity was seen just as another municipal initiative, disconnected from the tourism actors in the region (e.g., hotels, wine and food associations; university; festivities). Given what we have concluded in previous sections regarding the principles that should be observed regarding public and private sector cooperation in tourism strategies at regional and local level, it was not a very auspicious start.

Moreover, for any decision maker with a financial background, the projections of profits, and especially, cash flows are very worrying. With expected total cash inflows of the magnitude seen in table 3, the net expected cash flow for every year is worryingly low. Any small deviation from expected values would immediately create a deficit. And, if we look to the amount of revenues to be obtained from outside clients – that is, private sector entities using the services of the new enterprise - (table 2) and cash flows from such clients (table 3), this is an area where the fulfillment of such projections would not be easy.

Moreover, table 3, shows the importance of European funds to the cash flow position of the new entity. As securing (and receiving) such funds is always subject to delays and complex audits, this was also a recipe for possible significant deviations in cash flow projections.

Thus, in our view, the financial projections shown a very fragile entity, where minor deviations could jeopardize the whole project in terms of its sustainability. The municipality was bankrolling a new entity without a proper risk sharing strategy.

The Reality Check: The Economic and Financial Evolution of the Enterprise and Political Implications in the Council

Table 4 presents selected data on the economic and financial performance of the new entity from 2007 to 2010.

TABLE 4
THE ACTUAL ECONOMIC AND FINANCIAL PERFORMANCE
OF THE MUNICIPAL ENTERPRISE (SELECTED DATA)

	2007	2008	2009	2010
Income				
Revenue not dependent on the municipality	4.510,74	63.943,29	122.262,29	29.076,48
Subsidies from EU funds	356.500,00	942.833,80	917.487,24	1.294.790,18
External services (marketing and other)	309.402,92	1.127.836,55	863.916,44	1.199.521,92
Personnel costs	48.207,99	144.405,45	151.923,16	166.798,52
Operating income	2.296,53	-283.544,20	-11.683,05	-120.917,81
Net income	1.290,82	-278.265,65	13.112,12	-124.921,81
Balance sheet				
Total Assets	193.929,67	108.000,28	291.929,10	633.002,54
Equity	76.290,82	-202.560,58	96.514,20	22.588,54
Cash flow				
Operating cash flow	110.210,75	-255.492,81	178.533,97	-223.281,00
Total cash flow	109.446,49	-158.639,08	-22.499,97	3.069,98

Source: Own elaboration based on the “Annual financial reports of the municipal enterprise”

Data presented in table 4 confirm an economic and financial evolution that was far from encouraging. It is of particular relevance the fact that revenues from private clients (which would be one important way that private entities could engage in valuable collaboration with the new entity, by buying its services in marketing and promotion activities) were well below expectations and were declining over time. In 2010 they represent practically nothing when compared with subsidies.

Operating income and net income are heavily negative in 2008 and 2010, and in 2009 an operating loss also arises. These losses dented the enterprise equity. Thus, the municipality, being the sole shareholder, was constantly called to cover losses. Again, the lack of private shareholders meant that the financial risk was concentrated in the municipality.

Up to that time no effective effort was put in place to attract private capital to finance the enterprise. This put is capital structure dependent on the council funds – at a time of stringent public finances for Portugal – and diminished its financial standing with creditors (e.g. banks).

The same worrying picture is observed regarding cash flow. At the operating level or at the total cash flow level, deficits amounted in some years, placing pressure in the municipality.

The Political Process in the Council: What to Do Next and Lessons from the Case

From the actual evolution from 2007 to 2010, a growing disenchantment was seen in the Coimbra local council. Reasons for this lack of enthusiasm were:

- The successive financial deficits that the municipality was called to cover, and the inability to woo private clients or private shareholders to strengthen the financial base of the enterprise;
- The growing tension between the councilors and the managers of the enterprise, the latter being under the focus of the politicians for not being able to turn up the enterprise into a sustainable entity;

- The inability of the enterprise in tackling one of the perceived weaknesses of Coimbra tourism activity; that is, contrarily to Lisbon area, where the number of foreign visitors outnumber the share of nationals, Coimbra was dependent on 65% of internal flows.
- On a more general political level, and as is known, Portugal asked, in April 2011, for an EU-IMF led financial rescue. The memorandum signed with these entities called for severe cuts in public spending. It explicitly expressed that a detailed analysis of every enterprise where the national or local government was a shareholder should be submitted to a deep scrutiny, and a decision of restructuring or closing such entities should be taken soon.

It can be seen that the municipal enterprise was not a successful venture and was turning itself into a vehicle of political bickering among parties represented in the council. A period of evaluation was called by the municipal assembly. The question in every mind was if bringing back the tourism promotional activities to the municipal structure would not be a way of saving resources without significant loss of promotional activities.

Our report stated that simply moving along as if the municipality would cover every deficit that would rise was not an option. National and local political and public finance reasons would prevent this course of action.

A restructuring plan was needed, if saving the enterprise was the general purpose of councilors. The council should give a deadline to the enterprise managers for presenting a restructuring plan covering three core issues: strategic reorientation, raising capital from private sources, and adapting the cost structure.

If, given a reasonable amount of time, no convincing plan would come forward, the tourism promotion activities could be taken again into the municipality structure and the enterprise activity would be terminated.

In times of stringent financial difficulties for most Portuguese private sector operators, the council concluded that wooing private shareholders would be hard. And banks, generally cutting credit to the economy, simply refused to back an enterprise that regularly presented losses. Thus, the management was given some months to present effective results of stronger involvement with private tourism operators and increase revenues and to adapt the cost structure.

The final of 2012 was seen an important date to evaluate the effectiveness of this new approach and, if needed, the activities would move again into the municipality fold.

A certain degree of voluntarism and excessive hopes at the beginning of the process was now having unpleasant consequences. The report of 2004 showed a detailed analysis, produced rosy financial projections, and highlighted the need of private sector involvement. But, in practice, what this case really shows is that when these intentions do not materialize, there is a severe risk of the whole project going wrong, because of lack of economic and financial muscle. Also, the municipality could have done more to attract partners into the project, therefore sharing risks with tourism operators.

Disregarding sound principles of cooperation, well established in best practice literature, meant a high price for the municipality.

DISCUSSION AND IMPLICATIONS

The setting up, in context of public bodies, like a municipality, of a separate entity to promote tourism development has a solid ground in the conceptual framework for implementing touristic strategies affecting local economies (Presenza and Cipollina, 2010). After a careful diagnosis, the setting up of those bodies can enhance the positive impact of tourism activities in growth and employment that are strongly needed in some regions (Palmer, 1996).

The smooth implementation of such a partnership is, in my view, depend on three pillars which are discussed in this section: a clear and firm commitment of private and public partners to establish goals; a separation of stakeholders from day to day management of tourism promotion entities but a firm

accountability of managers to public and private organizations that support the them; and the setting up of contingency plans to solve problems emerging from underachievement at operating and financial levels.

Regarding the first topic, if, at its inception, a new entity that aims at bringing together public and private funds and expertise suffers from an initial lack of integration between public and private strategic goals, such disconnection can hinder the whole project and be the seed for failure (Pforr, 2006).

In the case analyzed in this paper, the absence of private stakeholders in the equity funds of the municipal enterprise, and the lack of operational integration between tourism promotion strategies and the private actors (e.g., hotels and restaurants associations, wine regions, heritage sites, privately promoted festivals and other festivities) meant that the newly formed enterprise was seen as just another public entity, disconnected from the real needs of the broad touristic sector.

As such, and given some mistrust between public and private bodies, political actors in the municipality could have done a stronger push for integrating relevant private agents. This would have strengthened the financial muscle of the entity and, also, enhanced the marketing power of the enterprise.

Secondly, and given the politically charged environment of a municipality, the management of such a new entity should not be under the vagaries of the political process. This means that competence, effectiveness of management and performance evaluation should prevail over political connectedness.

If the new enterprise is seen as an extension of political power and its staff is not seen as proficient in its core activities and has the patronage of councilors, the enterprise loses some of its status when dealing with outside parties. This is a real danger and calls for a steady political leadership from the highest placed people in a municipality.

Finally, the setting up of contingency plans to solve problems emerging from underachievement at operating and financial levels is central to any well managed entity.

In many cases, municipal enterprises tend to be set up on the assumption that councils will cover any economic and financial shortfall that its activity originates. However, and given the dire public finance situation of Portugal, such an assumption is not true. Pressure from the central government on local public organizations to be financially sound is paramount. Thus, before entering such experiences of setting up municipal enterprises careful planning must be done and alternative courses of action must be ready to be implemented.

CONCLUSION

The municipality of Coimbra – a town of 145 000 inhabitants located in the Portuguese Central Region - commissioned a report on the state of the tourism promotion in its area of influence. The report, after a SWOT analysis, recommended that activities related to tourism promotion should be taken out the organizational structure of the council, and a municipal enterprise should be set up.

The expected engagement of private entities with the new enterprise, a higher degree of freedom in management decisions, and financial projections that shown positive income and cash flow, convinced local councilors to approve to the initiative. However, after 5 years of operations, no private investors could be wooed, losses amounted, and the council was, in practice, the sole provider of contracts and cash to the enterprise.

After some acrimony among political parties represented in the council, regarding the merits and problems of the firm, in 2011 everything was back to square one. The municipal enterprise was facing liquidation, and a reactivation of the tourism division of the council was under consideration.

From what has been presented in this paper the following conclusions can be drawn. Tourism represents a central economic sector in Portugal, and its importance is going to rise. Given the heavy competition on a worldwide basis, Portuguese regions need to have tourism strategies and action plans that can successfully face its competitors.

These tourism strategies usually work better if they are based on the cooperation between the public sector and private actors, involving them in the initial financing of ventures and, also, as potential revenue generators. At the local level, the setting up of municipal enterprises to deal with tourism promotion has to be preceded by sound analysis, and a special attention need to be addressed to the sustainability and

consistency of financial projections. When municipalities and tourism enterprise managers are not able to attract businesses from private clients, and are not able to diversify risk by wooing private shareholders, the probability of an unsuccessful experience increases, as shown by the case.

Naturally that, being based on a case study, this paper has the usual limitations of research based on specific cases. However, we presume that some of its lessons are valuable for every political actor or manager that is dealing with tourism promotion and, even more generally, that is involved in ventures where public and private cooperation is deemed important.

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