


# The Reality of Financing Small Tourism Firms: The Case of Indian Tourism SMEs


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## ABSTRACT

Small tourist firms occupy an important place within the Indian tourism industry and make a significant contribution towards gross domestic production. This study investigates access to and finance preferences of SME tourism firms in the Punjab area, India. The study employed a post-positivist research approach depending on semi-structured questionnaires and interviews. The findings confirmed that tourism firms relied on pecking order trajectory, drawing capital from own savings, family and informal lenders, which is consistent with the literature. The study provides a unique insight into issues related to tourism firms and benchmarks findings with SME literature to identify the salient points.

## KEYWORDS

Entrepreneurial Finance, Finance, Financing Preferences, India, SMEs, STFs, Tourism, Tourism Small Businesses

## INTRODUCTION

Despite the size, turnover and importance for the tourism industry, the sector remains an under-researched one (Altin et al., 2017), particularly regarding its contribution toward economic and social fabric of countries such as India. Tourism is predicted to increase significantly by 2020 (Nawijn et al., 2008), not only in Europe, East Asia and the Pacific regions but there is also high growth reported amongst less developed economies too. Tourism plays a pivotal role to foster international understanding, for entrepreneurial education; could be a major economic and social tool to alleviate poverty, promote social, cultural cohesion and above all serves as a catalyst for transfer of human and technological knowledge. Globally, the tourism sector is the fourth biggest principal industry after oil, chemicals and food industries (Tugcu, 2014). International tourism generates economic growth

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(Balaguar and Cantavella-Joda, 2002) and provides a spillover properly effect (Cernat and Gourdon, 201) through the transfer of knowledge and technology which promotes social development.

Tourism in developing economies is dominated by SMEs, and its prominence for employment and development of the economy is observed to have an upward trajectory over the last 40 years (Thomas et al., 2011). For small tourism firms (like other small enterprises) access to finance remains a major challenge, in particular, within developing economies. There is a widespread body of literature for small enterprises that examines the contribution of small enterprises in general (Du et al., 2015) and suggest that access to finance impedes their potentials all over the world (Bec and Demircuc-kunt, 2006; and Beck et al., 2008). Tourism firms in developing economies face acute challenges due to underdeveloped financial environment and markets. However, the issues associated with the developing economies tourism firms' such as capital structure and finance constraints is under-researched. Consequently, local tourism firms are unable to operate efficiently or compete with international tourism firms; hence, they fail to fully support economic and growth potentials (Nawijn et al., 2008) of their region. Yet, it has been suggested that the tourism sector is vital for job creation (Thomas et al., 2011; Wanhill, 1999) and to promote competitiveness (Scmitz and Spencer, 2005) but, unfortunately, the sector only attracted limited sporadic attention of academics and policymakers (Petersen and Wanhill, 2005; Rogerson 2006; Thomas et al., 2001).

Contribution from tourism sector is well documented for the developed economies, such as the UK, USA and it has been hailed as an effective strategy to aid development within local and national economies (Schubert et al., 2011). Although in many developing economies, small tourism enterprises are the main source of employment and foreign earnings, yet these are often overlooked. It has been widely accepted that SMEs and small businesses are the backbone of any economy (El-Gohary, 2012; Storey & Greene, 2010) and small tourism firms (STFs) serves as a chain to motivate economic, social and technological change (García-Villaverde, 2017); as such firms have innovative traits (Hjalager, 2010). While academic fraternity acknowledges tourism as a vital source of hard currency earnings and employment in developing countries, questioningly this topic has gone curiously unexamined. In the last few decades, small tourist firms (STFs) have gained traction within tourism literature. This has been due to the increased recognition of the role STFs play for the wellbeing of economy; that has led to a flourishing interest in a variety of issues relating to STFs at large and more specifically under the category tourism literature (Thomaas & Augustyn, 2007; Ateljevic & Page, 2006). More specifically, issues related to tourism firms in developing economies remain relatively under research (Nemasetoni & Rogersin, 2005). However, over the last decade tourism activities have taken off and economic and social significance have started to gain traction (Rogerson, 2013).

Within global economies, tourism manifests itself in multi-dimensional spheres (Wanhill, 1999), contributing towards gross domestic production (GDP) of developed and emerging economies (such as India). Tourism contributes towards economic, social dynamism and prosperity of economies worldwide; it has a major impact on the economic, social, educational and cultural, sectors of any society. Moreover, tourism sector accounts for 30% of the world trade, contributes 2.9% towards the world GDP and generates nearly 222 million employment opportunities worldwide (which is 3.4% of the total employment); it is projected that by 2024 tourism industry will employ 126,257,000 employees, with an increase of 2.0% over the next ten years (United Nations World Tourism Organisation UNWTO, 2005; World Travel and Tourism Council, 2014). There is growing evidence of support by international agencies for small-scale tourism firms as they are pro-poor. Hawkins, and Mann, 2007 cite World Bank (2006) and report that tourist firms in Africa are estimated to be around 90% of small enterprises.

A similar upward trend in small tourist firms is reported for China (Zhao and Getz, 2008). Given colonial history, accessibility and rich Moghul Islamic heritage, India has particular appeal for tourism that is mainly supported by the STFs. This paper considers the importance of small tourist firms (STFs) at large and more specifically examines their capital structures, implications of finance gap in

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