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# **Sustaining the Small-to-Medium Tourism Enterprise: An Examination of Constraints to Accessing Capital**

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## **Introduction**

Nurturing the creation and maintenance of small-to-medium enterprises (SMEs) requires an understanding of the financial constraints that impede their development and sustainability (Brewer III, 2007; Chittenden, 1996). This is particularly true within the tourism sector (Thomas, 2011; US Department of State, 2012). In rural areas that rely on tourism to sustain their economies, the business sector may consist of many tourism-focused SMEs (TSMEs). Because the lack of population, distance, and existing infrastructure makes large enterprises less viable and because of the perceived benefits to the community's quality of life and the potentially low environmental impact, smaller rural communities favor TSMEs for economic development (Garrod, 2011; Thomas, 2011).

## **Literature Review**

While TSMEs are the predominant form of business in rural tourism destinations, few studies have addressed the capital funding process associated with starting a tourism business or sustaining it as an ongoing, viable enterprise (Thomas, 2011). The research that does exist indicates that access to funding is one of the greatest constraints to entrepreneurs who wish to open a business (Coleman, 2007; Coles, 2012). Inadequate funding not only limits the creation of businesses, but also may limit their growth and sustainability. Having access to funds can provide a buffer against market fluctuations and unexpected events (Chittenden, 1996; Coleman, 2007). Compared to SMEs in other business sectors, a TSME likely will encounter greater difficulty in accessing external funding (Coleman, 2007; Coles, 2012; Thomas, 2011). They also are less likely to request external funding, and significantly less likely to be approved for financing compared to SMEs in non-tourism industries (Pierce, 2010). This may, according to Thomas (2011), be because lenders perceive TSMEs to have a higher risk than other business sectors. As a result, owners of TSMEs may seek higher cost funding alternatives such as credit

card debt or short term loans (Chittenden, 1996). My research will examine the constraints to and consequences of accessing capital from a multi-stakeholder perspective.

A review of the literature related to the role that capital plays in entrepreneurial activities has not linked the topic of capital access to a specific framework or theoretical base. Readings related to constraint negotiation models suggests that it may be possible to apply the model to TSME development. I will explore this possibility further as the research design takes shape. (Jackson, Crawford, & Godbey, 1993; Hubbard & Mannell, 2001)

## **Methods**

This study will focus on TSMEs located in two rural communities in north Georgia. Using a mixed methods approach, I will examine the obstacles that TSMEs face throughout the capital funding process as well as the operating practices of both commercial and microfinance lending institutions. More specifically, I will:

1. Identify the obstacles that impede or prevent TSMEs from accessing capital. This will allow me to:
  - a. identify previously undocumented obstacles;
  - b. determine to what extent changes in banking ownership may have impacted lending practices; and
  - c. examine how the geographic distance between the lender and the TSME can cause constraints (Thomas, 2011).
2. Identify and assess the existing resources, (e.g., counseling, training), available to prospective loan applicants. I will:
  - a. examine the availability of resources at the local, state, and national levels including private and public sources;
  - b. assess how these resources are promoted and utilized, and
  - c. determine the success these resources have in preparing TSME entrepreneurs to successfully obtain capital.
3. Recommend potential policies, practices, and/or procedures that will minimize existing constraints including:
  - a. determining the operational requirements to incorporate these ideas into new or existing resources; and
  - b. identifying costs and constraints associated with implementation; and
  - c. make recommendations about how to implement these ideas.

During data collection, I will work with a local community development financial institution (CDFI) in north Georgia for 3 months allowing me to undertake an ethnographic study of the funding process. Through my relationship with the CDFI and through my prior work with the Georgia Department of Tourism, I will identify key informants to provide ongoing feedback and guidance with this study.

My research design consists of four phases of data collection using a mixed methods approach. First, to understand the economic contribution of tourism to each community, I will build a community profile that quantifies the importance of tourism to the community. Among the items I will include are: a profile of tourism enterprises, a census of banks and other financial institutions by type and size, visitor data, an estimate of jobs related to tourism, tourism spending and related tax revenues and data related to the economic impact of tourism within the community. I also will examine the number of business licenses issued and bankruptcies filed over the period of three years. The objective of this phase is to develop a detailed picture of the significance of tourism to each community.

Using the information collected from the community profiles and from initial interviews with key informants, I plan to create a business climate survey that addresses the sources of capital and the resources available to capital seekers in both communities. I will collect data from the five stakeholder groups identified in Table 1 using a survey that includes both open- and closed-ended questions. The purpose of the survey is to develop an understanding of the processes used to obtain capital and the perceived ease of doing so from the TSMEs' perspectives. I also will ask about the processes used to provide capital and the risk associated with lending to a TSME from the capital providers' perspectives. Local government's input related to the role that tourism plays in their communities and how its perceptions of the funding process works in their communities will be the final component of the survey. Preliminary estimates indicate a population of about 250 potential respondents per community.

Table 1. *Data collection summary*

<b>Stakeholders</b>	<b>Survey</b>	<b>Focus Groups</b>	<b>In-depth Interviews</b>
Existing TSME owners	X	Sub-group of survey respondents	Sub-group of focus groups' respondents
TSME Entrepreneurs <sup>1</sup>	X	Sub-group of survey respondents	Sub-group of focus groups' respondents
Banks	X		Local key informants
Micro-finance Institution	X		Key informants
Local Government <sup>2</sup>	X		Key informants
State Government <sup>2</sup>			Key informants

<sup>1</sup> Prospective TSME owners who have begun the loan process.

<sup>2</sup> Members of tourism and economic development departments/agencies.

Separate focus groups of TSME owners and TSME entrepreneurs will provide detail about their experiences from the applicant perspective (See Table 1). I plan to conduct a total of four sessions (two in each community) with six TSME owners in each group. If sufficient numbers do not exist for me to conduct a session for TSME entrepreneurs in each community, I will consider alternatives including a combined TSME entrepreneur group representing both communities, in-depth interviews, or a mixed group of TSME and SME entrepreneurs.

Participants will be sourced from the survey, key informants, and through referrals from participants.

The final step of data collection will be in-depth interviews with a minimum of two representatives from each stakeholder group to gain greater insight into how access to capital funding supports tourism development.

Using multiple methods including surveys, in-depth interviews, and focus groups will enable me to use each technique to inform and illuminate the data collected by other methods (Lieber, 2009). This approach offers the advantage of continual validation and triangulation (Faber, 2002). Interacting with multiple stakeholders who play different roles in the capital acquisition process of TSMEs should provide a balanced, holistic interpretation of the process.

### **Expected Outcomes**

By engaging and informing a broad cross-section of stakeholders in the tourism sector of my results, I hope to raise awareness of the criticality of funding availability to building and sustaining TSMEs. Using this information, borrowers and lenders can work together to not only explicitly identify constraints, but also to coordinate efforts to eliminate or reduce unnecessary ones. The conclusions of this study will assist policy makers in the development and application of potential tourism legislation and programs critical to the tourism's future growth. These findings could enable communities to increase opportunities for TSME start-ups and to improve their chances for success by offering appropriate resources.

To my knowledge, this research is the first to provide a comprehensive examination of capital funding for TSMEs from initiation of the request through the loan application decision for TSMEs. Working within a microfinance company and engaging with its clients provides me the opportunity to "experience" not only the procedural components of the capital acquisition process, but also, to overlay this experience with the emotional context of "working through" the process. This research is innovative because it provides a comprehensive perspective of the loan process viewed from the perspective of multiple stakeholders, including a micro-finance community development financial institution, its banking co-lenders, applicants seeking funding, and TSME owners. I also will examine how policies set by local agencies, community development groups, and state government agencies can affect capital funding for tourism.

This study will contribute to the literature about tourism economic sustainability by addressing issues related to accessing capital for TSMEs from multiple viewpoints. It will also build on the constraints literature by addressing what constraints exist for TSMEs and, for those who have been successful attaining capital funding, how they have negotiated through them. Subsequent research offers the opportunity for cross-disciplinary study that could explore the efficacy of implementation plans to minimize constraints or find creative ways of financing TSMEs not currently widely available.

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