



THE REASONS FOR FAILURE OF TOURISM SMALL AND MEDIUM SCALE ENTERPRISES (TSMES) AND POSSIBLE STRATEGIES FOR RESTRAINING THE FAILURE

Olukemi Adedokun Fagbolu

National Open University of Nigeria, Abuja, Department of Tourism Studies

E-mail: kemigracy@gmail.com

Abstract

This short exploratory study aims to explore and identify the reasons for failure of tourism small and medium-sized enterprises (TSMES) and possible strategies to remedy the ugly trend in the industry mainly from literatures due to the short nature of the study. The paper also highlights possible interventions by public sector, private sector and civil society to restrain failure of the businesses in the sector.

Keywords: Driving Forces, Reasons, Strategies, Interventions

Introduction

Tourism products are unique in nature relating to perceptions and experiences of features by both the operator and the consumer [Carr, 2002; Cole & Illum, 2006]. Undoubtedly, tourism has become a source of development worldwide for developed, developing and poor countries including post-industrial regions [Igbojekwe, 2011]. As the sector is influenced by small nature of operation and low barrier entries providing opportunities for a person that has the finance. Tourism business lacks definition regarded as an entity, for economic and political reasons to amalgamate different businesses relating to tourism activities. Customers are becoming more knowledgeable about features of tourism product with diverse perceptions and expectations [Kozak & Baloglu, 2011].

However, it is disheartening to observe that most times, the dreams and aspirations to run the business effectively and efficiently are always dashed before they can even breakeven at all. The question is what is actually wrong with tourism small and medium scale business enterprises? If there are any challenges, then there must be possible strategies that can be employed to avert the ugly trend. Thus, this short study explored the reasons for failure of small and medium business enterprises in tourism context and as well identified some strategies to arrest the situation now and in future towards achieving a tremendous change in the sector [Isern & Pung, 2007].

Trends and Driving Forces of Tourism Small and Medium-Sized Enterprises (TSMES)

Tourism encircles various perspectives of the tourist, the business, the public sector, the private sector, the civil society and the host community. As a service-oriented business, services in tourism industry depend largely on the stakeholders' abilities to apply functions of management; planning, organizing, controlling and coordinating to management of human, materials, machines, technological resources towards attainment of goals.

Many tourism businesses are usually located at resort centers or tourist destinations either in urban, rural or coastal areas operating at lower market levels, trading at levels below financial breakeven points, relying on long-term loans and overdraft, lacking skills in marketing, financial, human resource, strategic, production, operations, service and information technology management and purchasing of economies of scale [Seaton & Bennett, 1996]. Notwithstanding, tourism has developed into a great industry worldwide with diverse sectors that encourage various forms of businesses [Kaewkitipong & Brown, 2009].

Tourism businesses entail production, exchange, distribution, buying and selling of tangible and intangible products between operators and consumers which vary according to different forms of ownership and classification.

Ownership takes form of sole proprietorship, partnership, corporation and cooperative. Tourism business, therefore, is a unique industry modeled after business enterprises either large (corporations), medium or small. In this context, TSMEs comprise micro companies, small companies and medium-sized enterprises which employ employees according to definition of small and medium sized enterprises by different countries which is generally not less than ten (10) and fewer than three hundred (300) employees. Hence, like any other sector, is creating business opportunities for small and medium scale operators to make their ends meet. TSMEs may be different from points of origin but surely have economic, environmental and social impacts on the hosts and tourists [Christina, Semenik, Sophie, Sylvia & Kristina, 2009]. Meanwhile, economic growth in most nations is slow thereby affecting tourism business operators to source for international market.

Considering the complexity and nature of tourism business in both internal and external environment, Moutinho, Ballantyne and Rate [2011] identify a framework called "SCEPTICAL analysis [which] considers environmental influences in terms of social factors, cultural factors, economic factors, physical factors, technological factors, international factors, communications and infrastructure factors, administrative and institutional factors, legal and political factors" [p. 2]. Additionally, the era of development and maintenance of Computerized Reservation Systems (CRSs) is financially exorbitant to the small and medium business. As such, diverse exogenous and endogenous forces as the size and scope, the sector and country, the tax advantages, disclosure and compliance requirements affect TSMEs.

Nevertheless, the industry is dominated by SME operators who are opting out of business environment within a short period of operation run directly or indirectly by the owners or through employed managers.

Reasons for Failure of Tourism Small and Medium-Sized Enterprises (TSMEs)

TSMEs are most times restricted to the scale and scope of activity in which the business can hardly and usefully participate. Scholars [Avraham & Ketter, 2013; Bovaird & Russell, 2007; Dewhurst, Dewhurst & Livesey, 2007; Hass, Pryor IV & Broders, 2006; Jauhari, 2009; Kask, Kline, & Lamoureux, 2011; Semeniuk, Bourgeon, Smith, & Rothley, 2009; Toader, Brad, Adamov, Marin & Moisa, 2010] express that the reasons for failure are actually peculiar and numerous. The reasons for failure of TSMEs as disclosed among others include mature or declining market, non-availability and unaffordable communications technology developments and maintenance, changing patterns of consumer behavior, tribalism, ethnicity and gender discrimination, level of education, qualification and practical experience, lack of governmental support, power, time and financial resources, operating within environment with high levels of uncertainty and weaker position, limited direct control and influence on product, price and distribution, lack of planned cooperation, and coordination and linkages between tourism organizations in a country or region, lack of funds for promoting tourism businesses to markets and real, current and historical events happening and war within geographical boundaries. The rate of failure as gathered include lack of efficient and effective operations breeding poor accountability, record keeping, carelessness, entanglement to existing and traditional business practices and policies, poor asset, infrastructure and superstructure management, failure to attain complete level of requirements before commencement of business operation, change of requirements and expectations during operation, lack of resources, managers' support and beneficiary involvement and setting unrealistic goals and expectations.

Other factors responsible for failure of TSMEs comprise lack of adequate planning and technical ability, production of brochure without mentioning special events, inconsistent product quality and failure to attract new customers, perception of expensive price by customers, failure to recognize location of major competition, concentration on the concept rather than the customers and competition called conceptitis, economic recession, problem of understanding tourist demand, suffering from seasonality and demand fluctuations especially in rural and coastal areas, conspiracy against the survival of the small business in the environment, lack of trained and qualified employees, government bureaucracy and regulatory issues such as subject of restriction of visas to tourists, registration of tourism businesses and lack of resources to market a country or a region's tourism businesses to all the market that may be involved [Lussier, 1995; Luders, 1993]. Nevertheless, the rate of the menace can be reduced in order to sustain the sector [Goeldner & Ritchie, 2009].

Possible Strategies that can Restrain Failure of Tourism Small and Medium Sized Enterprises (TSMEs)

Authors [Goeldner & Ritchie, 2009; Lewis & Chambers, 2000; Moutinho, 2011; Seaton & Bennett, 1996] offer possible strategies to reduce the rate of failure of TSMEs in the tourism industry. Suggested strategies according to the scholars include development of small scale business cooperative linkages designed to maximize the return on scarce resources, breaking down of decision making process that caused missed opportunities, rigidity,

and business weakness, focusing on identifying problems and solving them, investing cash into new innovative tourism business and technology that take share from competitors, change the stereotyped or monotonous business culture, resources and inventory controls and periodical and rotational training and development of employees without favoritism and bias.

The TSMEs operators could also engage in filling of vacancies through promotion from within, discipline for real and effective cash management and not management by accounting profit and loss statements, strong, visionary and active leadership with a clear sense, better business planning and sharp performance, starting subsequent businesses with long-term perspective and clear objectives, direct and support services, conducting needs assessment of the tourism industry and encouraging employees formal training and development in hospitality and tourism institutions.

Furthermore, sound management practices, efficient and effective marketing management strategies through constant refocusing on consumer preferences and business, product rebranding and benchmarking, introducing exciting new products and process innovations, marginal pricing and constant sales despite the seasonal trends even during low or off peak season and proper record keeping could also serve as measures to reducing the rate of failure in the sector. The small tourism business must identify means of making product readily available to the customer, embarking on growth routes of penetrations, new product development, new market development, diversification and franchising, engaging in environmental scan to appraise internal and external environments, regular operations of assessing the demand of current and future market(s), detection of environmental change, flexibility and responsiveness, possession of ability by owners and managers to understand the cross impacts of external change, contingency approach planning, forecasting, and creative responses to both functional and operational issues, carrying capacity management and seeking for possible interventions by public sector, private sector and civil society sector.

Nevertheless, collaboration among the stakeholders in the TSMEs' system for implementation of such strategies is imperative to better reducing the rate of failure in the business sector than only suggestion by the researchers. Thus, public and private sector in conjunction with civil society can also make meaningful contributions towards enhancement improvement and sustainability of operation of TSMEs.

Possible Interventions by Public Sector, Private Sector and Civil Society Sector to Restrain Failure of Tourism Small and Medium Sized Enterprises (TSMEs)

Involvement public and private sector in conjunction with civil society can be felt by granting low interest or soft loan void of administrative bottlenecks policies in bank of industries or commercial banks, organizing TSME business owners' competence study program, greater attention to the wishes of the tourism small scale operators, encouraging foreign investors into the field, creation of enabling environment for the business and tourists and coordinating TSMEs activities through market research by national, regional and local tourist boards. The intervention could also be reinvigorating tourism co-operation through private/public partnership strategy, production and distribution of brochure with special events to attract customers, tax reduction, creation of development agencies for monitoring activities of operators, organizing traveler and tour programs so as to become acquainted with markets and processors in other countries and establishing tourism policy to stipulate the rules and terms of condition guiding functions of tourism operators. Others include making technical support available and affordable, reducing unnecessary bureaucracy and bottlenecks in public offices, availability of direct international flights and growth of low cost airlines, reporting tourist business flows through efficient and effective statistical techniques, providing remedial natural action patterns of diversifying the base of visitors, diversifying the geographical base of tourism to reduce overconcentration of TSMEs in certain areas and ensuring low cost in electronic media houses as a means of encouraging heavy promotion.

Civil society can make positive impact in the industry through equalities agenda, enclosed socio-cultural relationship, ethical, transparent and honest behavior and equity and regard for the rule of law [Alawe, 2004; Benoliel & Somech, 2010; Boone & Hendriks, 2009; Catibong-Sinha & Wen, 2008; Dimoska & Trimcev, 2012; Kaewkitipong & Brown, 2009; Khan, Breitenacker & Schwarz, 2015; Kim Lian Chan, 2009].

In view of tourism contributions to nations' economy dependence, notably, interventions by public, private and civil society sectors are undoubtedly relevant to reducing the rate of failure of TSMEs in the tourism industry.

Delimitation of the Study

Due to the fact that it was a short study, the scope of this study was to explore the reason for failures of tourism business small and medium scale enterprises and possible strategies from literatures without field study. The paper covered only nature of tourism small and medium-scale driving forces and trends of tourism business, reasons for failure and possible strategies as means of discontinuing the ugly trend, possible contributions that can be made

both by public and private sector and civil society. However, this paper requires further study in TSMEs as case study(s) in any parts of the world.

Conclusion

Based on the discovery from the literature, ownership of TSMEs takes form of sole proprietorship, partnership, corporation and cooperative. Notwithstanding, the industry is dominated by the operators who are opting out of business environment within a limited period of operation run directly or indirectly by the owners or through employed business managers.

TSMEs are failing as a result of factors or reasons comprising mature or declining market, non availability and unaffordable communications technology developments and maintenance, level of education, time and financial resources including operating within environment with high levels of uncertainty and weaker position, limited direct control and influence on product.

Failure in the sector can be restrained by implementing possible strategies as suggested by the scholars [Goeldner & Ritchie, 2009; Lewis & Chambers, 2000; Moutinho, 2011; Seaton & Bennett, 1996]. The possible strategies such as focusing on identifying problems and solving them, investing cash into new innovative tourism business and technology that take share from competitors, change the stereotyped or monotonous business culture, resources and inventory controls and periodical and rotational training and development of employees without favoritism and bias.

However, appropriate implementation of the strategies by the TSMEs operators in conjunction with the possible interventions by the sectors stand to making positive impacts and helping the operators to recording a better experience efficient and effective TSMEs operations to breakeven as at when due for maximum profit and thereby restraining failure for sustainability of TSMEs.

References

- Alawe, T. B. (2004). Entrepreneurship Process and Small Business Management. *Ramo Prints Production*, 7, 41-47.
- Avraham, E., & Ketter, E. (2013). Marketing destinations with prolonged negative images: Towards a theoretical model. *Tourism Geographies*, 15(1), 145-164.
- Benoliel, P., & Somech, A. (2010). Who benefits from participative management? *Journal of Educational Administration*, 48(3), 285-308. dx.doi.org/10.1108/09578231011041026
- Boone, C., & Hendriks, W. (2009). Top management team diversity and firm performance: Moderators of functional-background and locus-of-control diversity. *Management Science*, 55(2), 165-180.
- Bovaird, T., & Russell, K. (2007). Civil service reform in the UK, 1999–2005: revolutionary failure or evolutionary success?. *Public Administration*, 85(2), 301-328.
- Carr, N. (2002). A comparative analysis of the behaviour of domestic and international young tourists. *Tourism Management*, 23(3), 321–325.
- Catibong-Sinha, C., & Wen, J. (2008). Sustainable tourism planning and management model for protected natural areas: Xishuangbanna biosphere reserve, South China. *Asia Pacific Journal of Tourism Research*, 13(2), 145–162.
- Cole, S. T., & Illum, S. F. (2006). Examining the mediating role of Festival visitors' satisfaction in the relationship between service quality and behavioral intentions. *Journal of Vacation Marketing*, 12(2), 160–173.
- Dewhurst, H., Dewhurst, P., & Livesey, R. (2007). Tourism and Hospitality SME Training Needs and Provision: A Sub-Regional Analysis. *Tourism and Hospitality Research*, 7(2), 131-143.
- Dimoska, T., & Trimcev, B. (2012). Competitiveness strategies for supporting economic development of the touristic destination. *Procedia-Social and Behavioural Sciences*, 44, 279-288.
- Goeldner, C. R., & Ritchie, J. R. B. (2009). Tourism principles, practices, philosophies (11th ed.). New Jersey: John Wiley & Sons, Inc.
- Hass, W. J., Pryor IV, S. G., & Broders, V. (2006). A graphic tour of success and failure in corporate renewal. *The Journal of Private Equity*, 9(2), 30-44.
- Igbojekwe, P. A. (2011). Globalization: challenges on the development of hospitality and tourism in Nigeria. *HATMAN Journal of Hospitality and Tourism*, (1)1, 42-50.
- Isern, J., & Pung, C. (2007). Driving radical change. *McKinsey Quarterly*, 4, 24.
- Jauhari, V. (2009). The hospitality and tourism industry in India: conclusions and solutions. *Worldwide Hospitality and Tourism Themes*, 1(1), 75-80.

- Kaewkitipong, L., & Brown, D. H. (2009). Relative Size and Complexity: E-business use in small and medium sized tourism enterprises in Thailand. *Journal of Enterprise Information Management*, 22(1/2), 212-231.
- Kask, S., Kline, C., & Lamoureux, K. (2011). Modeling tourist and community decision making: The SAVE market. *Annals of Tourism Research*, 38(4), 1387-1409.
- Khan, M. S., Breiteneker, R. J., & Schwarz, E. J. (2015). Adding fuel to the fire: Need for achievement diversity and relationship conflict in entrepreneurial teams. *Management Decision*, 53(1), 75-99. [dx.doi.org/10.1108/MD-02-2014-0066](https://doi.org/10.1108/MD-02-2014-0066)
- Kim Lian Chan, J. (2009). The consumption of museum service experiences: benefits and value of museum experiences. *Journal of Hospitality Marketing & Management*, 18(2-3), 173-196.
- Kozak, M., & Baloglu, S. (2011). Managing and marketing tourist destinations: Strategies to gain competitive edge (1st ed.). New York: Routledge.
- Lewis, R. C. and Chambers, R. E. (2000). Marketing leadership in hospitality: Foundations and practices (3rd ed.). United States of America: John Wiley & Sons, Inc.
- Luders, R. J. (1993). The success and failure of state-owned enterprise divestitures in a developing country: The case of Chile. *The Columbia Journal of World Business*, 28(1), 98-121.
- Lussier, R. N. (1995). A nonfinancial business success versus failure prediction mo. *Journal of Small Business Management*, 33(1), 8.
- Moutinho, L., Ballantyne, R., & Rate, S. (2011). The new business environment and trends in tourism. In L. Moutinho (Ed.), *Strategic management in tourism* (2nd ed.) (pp. 1-19). Wallingford: CABI Publishing.
- Moutinho, L. (2011). *Strategic management in tourism* (2nd ed.). Wallingford: CABI Publishing.
- Seaton, A. V. and Bennett, M. M. (1996). *Marketing Tourism Products: Concepts, Issues, Cases* (1st ed.). UK: International Thompson Business Press.
- Semeniuk, C. A., Bourgeon, S., Smith, S. L., & Rothley, K. D. (2009). Hematological differences between stingrays at tourist and non-visited sites suggest physiological costs of wildlife tourism. *Biological Conservation*, 142(8), 1818-1829.
- Toader, C., Brad, I., Adamov, T. C. Marin, D., & Moisa S. (2010). The main causes which lead to success or failure of a Project. *Scientific Papers: Animal Science and Biotechnologies*, 43(2), 449-453.