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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 Demirguc-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 their operation. It is structured thematically to contextualise the role of STFs, examines their financial structures and finally considers the implications of financial constraints on their survival and growth.

TOURISM INDUSTRY WITHIN THE DEVELOPING COUNTRY CONTEXT

Tourism is widely perceived to be of economic and social importance as it promotes economic development and generates income opportunities for the population; it accounts for six per cent of the total world exports, and it represents thirty per cent of the size of the world international trade (Ohlan, 2017). Tourism serves economies in several ways: generates foreign exchange, attracts new technology (McKinnon, 1964) and promotes the development of local infrastructure, skill base of the community and languages skills that connects the local community with national and international economies (Cernat and Gourdon, 2012). Tourism internationally has been used as a strategy to promote development and employment to varying level of success, especially amongst women (Movono and Dahles, 2017).

In the case of India, the Government of India, in 2015, targeted tourism sector to promote economic growth (Ohlan, R., 2017). Whereas tourism firms in developed economies tend to excel as they had better access to finance and entrepreneurial skills (Britton, 1982), tourism firms in developing economies face a lot of challenges and difficulties. Though the literature recognises that SMEs are the catalyst for innovation, job creation and social cohesion (Hussain et al. 2008), both in developed and emerging economies but they face financial constraints to a varying degree. Equally, the benefits of STFs have been acknowledged. Meanwhile, tourism activities within developing economies accelerate information flow that impacts on economic, social and human development leading to enhanced foreign exchange earnings. Small firms' literature is silent on the role of small tourism firms. However, given the importance of STFs for emerging economies and their respective regions, there is a dearth of studies that specifically examine finance gaps and its implications for tourism firms.

For a short period, tourism firms attracted considerable attention of policymakers and academics, but the attention gradually became extinct, both in developed and developing economies as the sector lost its glamour. However, in developing economies such as India, Tourism has evolved over the last several decades and still makes significant contribution towards employment, the gross domestic product and foreign exchange earnings. The Indian tourism industry has experienced rapid transformation from its origin back in 1949 (Mishra et al., 2011) when the British colonial government set up Tourist Traffic Branches in Indian cities. In 2014, per Indian Tourism board, the sector contributed over 37.4 million jobs and over 7% to Indian's gross domestic production, illustrating its strategic importance. STFs often fall in the category of SMEs at large. Such firms are reported to have barriers to access optimal finance that undermines their operation efficiency, yet SMEs is the driver for growth and economic activity. Given the importance of the sector, it is imperative to examine factors that constraint their growth that mitigates the adverse effects of poverty.

Given the strategic importance of small tourism firms, it has been suggested that tourism industry has the potential to decrease economic deficiency and poverty in developing countries, and more specifically amongst the least developed economies (Hugo and Nyaupane, 2016; Eid and El-Gohary, 2015b; Mbaiwa, 2017; El-Gohary, 2012; El-Gohary, 2010; Eid and El-Gohary, 2015a). However, this potential is closely linked to adequate access to finance for small and medium tourism enterprises (UNWTO, 2005). Therefore, the role of small tourism firms as an essential tool for employment creation, innovation, poverty alleviation, wealth creation and fostering competitiveness worldwide has been well recognised in the academic literature (Ramaswamy, 2014; Beck et al., 2011; El-Gohary, 2012). Kalhoro et al. (2011), El-Gohary (2016), El-Gohary and Eid (2014), El-Gohary and Eid (2012), Hamad et al. (2015), Millman and El-Gohary (2011) Zaki et al. (2015), European Union (2009), Eid and El-Gohary (2014), Storey (1994), and El-Gohary (2010) confirmed the same.

Meanwhile, it has been acknowledged in the literature that while SMEs are an integral part of the tourism industry, yet they are underrepresented in the academic literature (Getz and Nilsson, 2004). Of the small business research that has been conducted, a sizeable portion has focused on industries other than tourism (Jaafar et al., 2011). The tourism-specific research on STFs has predominately been conducted in Western Europe, Australia and New Zealand and has frequently focused on a single segment of the industry. Despite the familiarity, and how tourism sector importance is like in the western countries, developing countries governments failed to promote tourism as a strategic priority in national policies. Also, it is an area not well supported by the major international funding agencies either.

The economic and financial environment within which STFs operate differ significantly from developed economies regarding credit, legal and institutional environment that creates financial constraints and the high cost of borrowing that prevented STFs from maximise their full potentials. However, academic interest over the same period tended to fluctuate, and studies on tourism at large remain limited. More so tourism remains grossly an underexplored topic in the Indian context. Therefore, this study focuses on matters linked with access to finance for small tourism business; with a particular focus on three main facets: their motivations for starting the tourism-related business; mode of finance; and to examine the impact of the cyclical nature of the business. Furthermore, this research examines the demography of Indian STFs owners' traits that have been recognised to contribute to the success of the entrepreneur.

Small Tourism Firms

Tourism firms are frequently viewed as an engine of economic growth (El-Gohary, 2012), social development and agent for change; it continually innovates to remain relevant, sustainable and competitive. The sector is characterised regarding SMEs that has received substantial consideration from policymakers and governments internationally. Access to finance for SMEs have been examined extensively and researched within the UK and in developing economies (Hussain et al. 2009); yet there is limited literature that inspects and investigate specific access to finance challenges encountered by the small tourism firms (Thomas et al., 2011). However, there have been studies that have demonstrated the benefits of sustainable tourism (Fuller et al., 2005) to provide social benefits for communities dependent on tourist firms (Kokkranikal and Morrison, 2002). Given this recognition, STFs have become the focus of attention regional and national policy makers (Rogerson, 2007; Nilsson et al. 2005; Thomas, 1995), especially in heavily tourist-dependent countries and emerging economies that have attempted to diversify their foreign exchange earnings.

Thomas et al. (2011) argues that STFs is one discipline that is often subsumed under the category of SMEs despite its unique characteristics that need an independent investigation to establish their specific barriers to access finance and implement strategies to promote their growth. Limited research within the field of small tourism firms suggests that policymakers and researchers sometimes make certain presumptions and assumption that often are misplaced (Thomas et al., 2011). Smith (2006) reports that the tourism sector is not distinct from other sectors of the economy; it too makes a significant contribution to employment and their influence on the gross domestic product is very notable. However, in developed markets, there is a visible presence for large tourist firms, which employ a significant number of people (Thomas, 2000).

As the importance of tourist firms gain prominence amongst policy makers and academics, so debates on access to finance become essential. Companies, tourism firms or others, with adequate finance, tend to be more resilient to innovation, changes in the environment (Grindley et al., 1997). Within this context, it is considered timely to investigate issues and challenges that STFs experience in accessing finance and their impact on firms' performance at large and in the context of India in particular. Access to external finance in the west is considered to have implications for the efficient operations of SMEs (Hussain et al., 2006; Blumberg and Letterie, 2008). The challenge for STFs is that they require financial resources as a prior commitment to secure business, in this case, external lenders have to rely on the projected cash flow to evaluate the proposal. Within this context, bank encounters information asymmetry and to overcome adverse outcome and moral hazard by using some other basis to ration credit, which is an approach, used to make lending decisions to any small firm.

There is a widespread number of research studies within the literature that examines access to finance by SMEs; however, it was mainly examined in industrialised and developing economies (Zhu et al., 2012). However, there is negligible literature that specifically investigates finance journey for the STFs and in particular; the current study will be one of the first studies of the kind for India. Finance constraint debilitates the potential of any business but, given the nature of the tourism business, its impact could be severe and shorten the life of the project, which is threatening firms' survival. Finance is pre-requisite to establishing any enterprise. The business needs to acquire fixed, variable assets and services. Therefore, adequate institutional finance is essential for the development of SMEs irrespective of the business sector. Many authors (e.g., Getz et al., 2004; King, Solomon and Fernald, 2001; Morrison and Teixeira, 2004) have acknowledged that financing can be a large hurdle in the way of owner-operators realising their dream of opening a tourism business. While the belief those tourism businesses require little capital in some instances is true. However, it is not always the case when dealing with international tourists from developed nations who demand enhanced basic infrastructure that often is expensive and limited in developing economies. Consequently, Morrison and Teixeira (2004) suggest that undercapitalised firms see finance as a barrier to tourism business creation.

In reality, it is quite hard to build, develop and maintain a suitable and supportive environment and/or infrastructure for small tourism firms as such firms are more likely to have very limited access to financial resources, adequate training, human capital, marketing experience, technology, etc. Finance gap for STFs is often the main reason stopping existing and prospective entrepreneurs from entering the market and/or chasing their groundbreaking business plans as well as innovative products and/or ideas. Bruno and Tyebjee, (1985) suggest, finance constraint challenges of SMEs are equally applicable for the STFs. Inadequate finance at any stage of the business has the potential to cause a high rate of failure amongst start-ups, and it is likely to constrain firms growth potentials (Carlisle. et al., 2013). Therefore, although SMEs are considered to be one of the significant sectors within the Indian economy (Kumar and Rao, 2016), yet, STFs are part of this sector too. However, they have unique features: cyclical trade, volatility of foreign exchange rates, uncertain external environment, the cash flows volatility and business planning continue to be a challenge for such firms and the external lender. It is not problematic to envision why STFs face a great challenge when accessing bank finance, given their small size, operating under challenges and uncertain conditions and with limited capital.

Tourism firms' choice of finance patterns is consistent with the approach implied by the Pecking Order Theory (Myers, 1984; Myers and Majluf, 1984). It has been long established that SMEs use the pecking order theory (Cosh and Hughes, 1994; Holmes and Kent, 1991). Like SMEs, STFs are opaque; therefore, they too incur information cost (Psillakaki, 1995). To avoid information cost and other associated cost, small firms will use less debt and prefer internal funds first before seeking external debt. Firms do not prefer external debt to equity as this enables them to retain control and avoids intrusion into their decision-making. Invariably, except for large firms, STFs tend to use owner finance, and external debt is mostly sought from banks. Using findings of Ang (1992), for SMEs, it can be inferred that for STFs, agency cost associated with the external debt can be severe due to small tourism firms' opaqueness. Consequently, one would, consistent with the reported SMEs findings by Ang (1992), expect that small tourism firms' capital structure to be heavily skewed towards owners' equity and averse to debt capital.

In summary, there is a scarcity of empirical studies within the literature on the financing of small tourism firms at large, and more so for the Indian small tourism firms. This suggests that such firms' excessive reliance on non-market sources of finance may be constraining the growth of an important sector of SMEs that has the potential to help the country to earn tax revenue, create employment, retaining young people within a locality and preserving rural communities an economic eco-system. The gap in the literature for STFs is addressed by analysing the characteristics of STFs. This is followed by examining their financial structure and testing their financial adequacy.

Indian Tourism: Indian Context

Formal Tourism in India can be sketched back to 1945, with the formation of a committee to promote tourism in India. Today the Ministry of Tourism performs this function (Baporikar, 2017). Tourism in the 21st century is one of the most important sectors for India and worldwide. Ease of travel, technology, communication and transnational social networks has transformed the world into a 'global village (Cost, Panyik and Buhalis, 2013) that has provided India with a competitive advantage. The tourism sector in India has played an important role to promote regional attractions such as artisan, and cultural diversity. Indian tourism sector fits well in that it has realised the opportunity and needed an environment to create wealth through servicing international tourist clientele (Al-dajani and Marlow, 2013).

With a few large providers of tourism services, the sector continues to be serviced by small tourist firms in India. The tourism sector in India is a promising sector, it contributes 6.77% towards India's Gross Domestic Production, and this figure compares favourably with the most touted information Technology-Business Process industry's contribution of 7.5% (National Council for Applied Economic Research, 2014). Therefore, it is not a surprise that the sector has acquired new impetus with the formation of The National Tourism Policy of 2015. The new tourism policy continues to evolve and take into account issues such as eco-tourism, conservation and sustainability. However, it is noticed that there is a dearth in the number of studies in the literature that inspects the positioning, role, contribution and challenges facing small tourist enterprises, relating to access to finance.

RESEARCH SAMPLE AND METHODOLOGY

There is now a well-established number of studies that employed questionnaire survey to inspect finance preferences and capital structure of firms in the West; for both large (Bancel and Mittoo, 2004; Brounen et al., 2006) as well as small firms (Hussain et al., 2006). The inspiration for the approach was derived from the established surveys carried out in the UK by Hussain and Matlay (2007) as well as some other researchers. The methodology used in this study is following the rising tradition of focusing on mixed method approach (Hussain et al., 2006). To achieve the research objectives, the study was divided into three main segments: i) carry out the literature review and conduct informal interviews with small tourism firms; ii) the use of a semi-structured questionnaire, then finally iii) through face-to-face interviews with STFs owners and/or managers.

The tourism firms within the sample were from the State of Punjab and the greater New Delhi, capital of India for the years (2016 – 2017). The selection of the sample was purposive; the respondents were selected using a snowballing technique, where owners and/or mangers referred other tourism firms' owners and/or mangers to the research team members. One of the authors and a team of trained researchers conducted the survey to gather the required data related to access to finance and the different challenges STFs encounter when accessing external finance. The sample was purposely selected to include SME tourism enterprises, which is a good representative sample of the tourism sector in India.

The sample size was determined to be 210 STF, which represent 20% of the registered number of STF within the population frame. Although 210, small firms were approached, but only 122 respondents co-operated, from whom owner/ managers were interviewed, and they were prepared to respond actively. To ensure consistency of the findings, the completed questionnaires were crossed checked. The major challenge for researchers in this study was the process of gaining the trust of the respondent that is captured by one of the respondents:

In India, no one trusts, confidentiality is none; they only promise to keep information confidential.

Therefore, the interview began with 'soft' questions, such as 'tell us about yourself, 'experiences' and then progressed onto finance related information. To ensure the confidentiality of respondents, names of respondents were coded for the analysis purposes. The sample frame for this study was developed from multiple sources, such as business directories, and networks and through the recommendations of government agencies in Punjab and the capital New Delhi. The following Table 1 provides an illustration of the sample size and its distribution.

The research sample comprised of 20 micro, 79 small and 23 medium size tourism firms (see Table 1). The relatively large number of medium size firms (65%) is representative of the tourism firms' population frame in India. The Small and Medium tourism firms collectively represent 85% of the sample (65 and 19 per cent, respectively). These figures suggest that within the research sample, small and medium firms mainly dominate the tourism sector; this is also reflected in the reported turnover, the age of owners and/or managers, their educational attainments and number of employees.

Regarding the age profile of the 122 STFs in the study, 25% of micro firms were less than 5 and 65% less than 15 years old. In comparison, small (40%) and medium (61%) firms were greater than 15 years old; tended to have more employees and employed managers. However, the proportion of graduates in micro (70%) were greater than small (31%) and medium (65%) firms. A closer examination of business age and education suggests that newcomers to the sector have a higher presence of education that enables them to use technology for communication, marketing and global outreach. Medium sized tourism companies tend to be asset rich with regard to ownership of resorts, infrastructure; whereas, to overcome financial constraints, micro and small size firms tend to use third-party infrastructure.

The survey also shows a marked sectoral shift from farming to tourism in Punjab. Owners of 43 tourist firms in this survey, were previously associated with the agricultural and farming sector. This movement (shift) is attributed to falling return from farming, awareness of other opportunities, and fragmentation of agricultural land due to inheritance amongst family members, status, and the reluctance of educated population to work within the agriculture sector. The sample demographics suggest Males regarding ownership mainly dominate the sector but amongst the sample as a whole 39% employee were females, but none in senior management positions, indicating that in India, tourism sector ownership remains male-dominated. However, out of a sample of 122 tourism firms, female entrepreneurs owned ten businesses, and these were either micro or small ventures, set-up over the last 2-5 years, providing travel and ticket booking agencies; and owned jointly in partnership with their family.

According to the research sample, the tourism sector appears to have higher educational deepening; 12 (9%) up to 16 years, 56 (46%) up to 18 years, and 54 (44%) of owner / managers were graduates. However, when further quizzed, a significant number, 110 (90%) of tourism firms' owners and/or mangers had had no formal tourism-related education. However, tourism-related education was recognised by 68 (56%) of the respondents to be important and financial literacy 93 (76%) extremely

Table 1. Sample size and distribution

Types of firms	No of firms	Turnover ($)	Business age Years			No of employee	Ownership /managers		Average age		Education		
			1-5 yrs.	1-15 yrs.	15+ yrs.		Owner	Manager	Owner	Manager	16 yrs.	18 yrs.	Grdauate
Micro(1-9)	20 (16%)	up to $50,000	25%	65%	10%	65 (15%)	19 (95%)	1 (5%)	51	43	2	4	14
Small(10-49)	79 (65%)	$90,000 - 140,000	14%	46%	40%	242 (57)	72 (91%)	7(9%)	56	46	9	45	25
Medium(50 -249)	23 (19%)	141,000 - 210,000	9%	30%	61%	117 (28%)	14 (61%)	9 (39%)	59	49	1	7	15
250+	0	-	-	-	-	-							
Total	122					424	96	17	55	46	12	56	54
Sample demographics - Table 1													

important. In the sample, 37 (30%) of the respondents specifically, without prompt, stated the need to have tourism-related training in language, information technology, marketing, and financial management skills. 9 (32%) of owners reported, lack of managerial and financial education adversely impacts firm performance. Consequently, they are heavily reliant external professionals.

Some studies within the related literature suggested that SMEs, which use effective systems and adapts practices to recruit managers and employees are more successful in growing their enterprises (Lampadarios et al., 2017). However, the tourism firms within the research sample, even medium size, tended to use informal management systems. Most of the respondents in the sample used informal human resource practices that adversely impacted the firms' ability to recruit and retain skilled and capable employees. The analysis of respondent suggests, the absence of formal processes this tended to limit firms scope to delegate, develop structures and recruit competent managers to manage and develop the businesses. In the sample, there were 17 (14%) senior managers employed, and 96 (86%) of firms are individually, or family-run and only 3 were partnership firms.

FINDINGS

Financing Preferences of Small Indian Tourism Firms' Owners and/or Managers

To test tourism small firms' owners and/or managers' preferences for bases of finance, the respondents were asked to provide estimates of the finance mix, used by them and their respective preferences, over the last five years. Figure 1 shows longitudinal changes in the financing preferences of the sample tourism firms over five years. The analysis suggests that the owners' personal savings are preferred over family, friends, graduating to informal, and then to formal lenders. Such results and findings are in line with the assumptions of the Pecking Order Theory and previous findings reported for SMEs (Hussain et al., 2008). However, one major deviation is that the formal source of finance in the sample exceeded owners, family, and friends' contribution towards business for the 3-4 years period. Figure 2 shows the financing preferences of the SME owner and managers.

Figure 1. Sources of finance actually used over the last five years (*OOS (Owners' own savings), BF (Financed by a bank), OFF (Owners' Family and Friends), IL (Informal lenders, EF (Equity Finance))

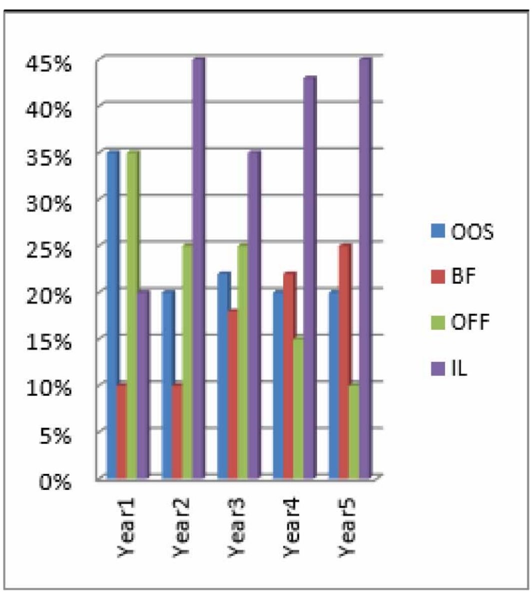
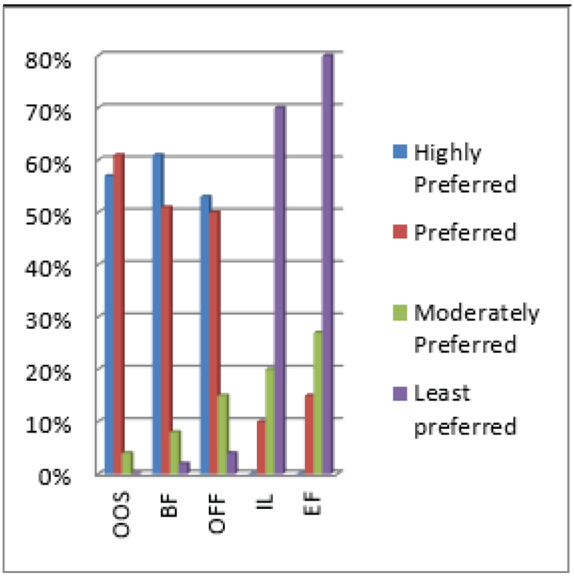


Figure 2. Financing preferences of SME owner/managers (*OOS (Owners' own savings), BF (Financed by a bank), OFF (Owners' Family and Friends), IL (Informal lenders, EF (Equity Finance))



Considering, TSFs, literacy and education at large, as the business matures, the owners and/or managers gain greater financial awareness that enables them to prepare better financial information. Better provision of financial information and the trading records of accomplishment enables lenders to assess potential business risk. Analysis of the sample suggest, over time reliance on the borrowing from family has decreased, while reliance on external sources has increased to 45 percent.

The findings corroborate with earlier findings by other researchers (Hussain and Matlay, 2007; Ward, 1986); as the importance of financial support from the owners' and/or managers, friends have a tendency to decline as the companies mature. Despite the increase in bank borrowing (25 per cent) in year five, relatively significant number of micro and small TSFs continue to rely on informal lenders for funding in Indian Punjab, indicating embeddedness highly. There is evidence (Figure 1) that the firm's finance mixture, as well as its financing preferences, have altered. The analysis suggests that TSFs tend to use external finance at the growth, but there is limited usage of trade credit due to the nature of the tourism business.

Amongst the sample (Figure 2), bank finance and personal sources of finance are most preferred, whereas equity is the least preferred; as owners were interested in retaining control of their business than growth through raising equity finance. However, the respondents are averse to approach a bank, especially at startup stage. There is a fear of rejection (especially amongst micro and small firms) and the belief that banks are there to exploit businesses. Seventy-six per cent (93) of the respondents (Table 2) reported that their loan application was rejected, although they have been operating for longer than five years. Eighty-eight respondents suggested that tourism businesses are cyclical and collateral poor; financial institutions seek collateral; hence, they tend to favour medium size and asset rich enterprises.

Tables three and four reports, fear of credit rejection at the start-up and growth stage. Seventy-five%, of the respondents, reported access to external finance was a significant constraint that adversely affected the growth potential of micro and small enterprises. Whereas 52% of the respondents aspired to achieve growth of over 20% in the next 2-3-year time; while 41 per cent intended to attain growth of 50 or more per cent over the next five years. However, some owners, 52%, were content with their operations and had no aspiration to raise an external loan to grow the business. These research findings

Table 2. Formal credit rejection (business duration / business age-wise)

Loan Rejection	< 2 Years	< 5 Years	< 7 Years	< 10 Years	> 10 Years	Total
Yes	16	53	16	5	3	93
No	14	15	0	0	0	29
Total	30	68	16	5	3	122

Table 3. Fear of formal credit rejection at the start-up stage

Fear of Loan Rejection at the Start-Up Stage	Micro	Small	Medium	Total
Yes	15	32	16	63
No	35	20	4	59
Total	50	52	20	122

are in line with the findings of Davidson (1984) and Storey (1994). The findings reinforce the fact that finance constraint limits firms' growth, forcing such firms to rely on fluctuations in retained earnings that are highly correlated with political and macroeconomic fluctuations.

DISCUSSION, CONCLUSION AND DIRECTION FOR FUTURE RESEARCH

The study focused mainly on analysing access to finance for a specific tourism sector in India and consequences of finance constraint for firms' growth, operations and its implications for Indian tourism firms. In addition, the paper analysed changing finance preferences of Indian small tourism firms (STFs) and their impact on their growth.

The analysis of 122 STFs showed that tourism firms make a noteworthy influence towards both the Indian economy as well as employment within India. Indian small tourism firms (TSFs) are mainly family owned and have extensive reliance on informal finance, a finding consistent with studies analysing SMEs internationally. However, seasonal and international factors are more pronounced for STFs that has a significant impact on their operation and the cyclical nature of the operations.

When accessing external finance STFs, experience issues related to asymmetric information; leading them to pay a premium to obtain external finance. These results indicate that SMEs suffer from poor record of accomplishment and weak financial accounting systems, hence raising the need for adequate collateral. Tourism firms' dynamism and relationship with external finance providers; both providers and the business recognise the tourism market has a higher unpredictability and

Table 4. Fear of formal credit rejection at the growth stage

Fear of Loan Rejection at the Growth Stage	Micro N=50	Small N=52	Medium N=20	Total
Yes	39	9	6	54
No	11	43	14	68
Total	50	52	20	122

changes could ensure rapidly. Hence, firms use their social capital and tacit knowledge, derived from their reputation, and 'face-to-face' contacts to overcome information asymmetry or financial information deficit.

This suggests that, unlike SMEs at large, in India, tourism firms rely on social capital and the dense networks to mitigate information asymmetry and enhance firms access to information. In this sense, this unique, feature of Indian STFs may not be providing rapid growth but ensures their survival through external finance to mitigate cyclical fluctuations and enable them to capitalise on their wealth maximisation opportunities.

One of the key contributions of this study is that the current study investigated, compared the characteristic of Indian tourism firms with SMEs at large and specifically, investigated barriers and preferences for finance. Moreover, the study has shown that finance preferences of owners change over time. As tourism firms face barriers to external finance, especially at the start-up and growth stage. The study's significant contribution is that not all Indian tourism firms are not necessarily aspiring for growth and are more interested in surviving and ironing out cyclical fluctuations in their cash flow. Within this study, the authors have identified social capital and relational factors to be important factors.

Indian tourism sector contributes to the country's GDP and provides business opportunities for other supporting sectors. Based on the research sample of 122 SMEs, this research helped to understand that there are major positive relationships between access to finance and growth of tourism firms. The findings suggest that financing preferences of the tourism firms' owner/managers have a positive change and a positive influence on firms' growth and the sector development. Moreover, this research reports that tourism companies' owners and/or managers inclined to systematise their finance structure to gain optimum capital debt and equity ratio (Hussain and Matlay, 2007). However, these tourism firms' owner/managers preferred financing options that enabled them to retain business ownership rather than promote their firms growth.

Based on the attained experiential findings, the authors suggest that owners / managers of tourism firms in India assess their existing financial system to enhance quality and provision of financial information, for internal decision-making and to use to access external finance. To evaluate, the existing and evolving financial market dynamism and the use of technology by banks for lending decisions. Meanwhile, they should consider the evolving financial and institutional environment and the future of social networks to conduct business with financial institutions.

Among the limitations of this research, is the need to carry out a longitudinal study to examine Indian tourism firms changing finance preferences, social networks and why there exist complacency or reluctance to growth. This can be the focus of future research studies within this area of research. However, the authors acknowledge resource limitations and the arduous task of collecting data.

Among the future lines of research, the authors suggest carrying out an empirical study to examine the correlation between access to finance and the associated variables. In this way, it would be possible to delve deep into factors that affect Indian small tourism firms' growth and access to finance.

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