

## **A Conceptual Model of the Determinants of Performance of Tourism Sector Small and Medium Enterprises (SMEs)**

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**ABSTRACT:** *The purpose of this paper was to examine the determinants of performance of small and medium enterprises (SMEs). Using simple random sampling technique, a total of one hundred and fifty one respondents were selected and participated in the survey. A structured questionnaire was used to collect data on entrepreneur attributes, firm characteristics and external environmental factors determining performance of SMEs. The data were sought and analysed using SPSS statistical package. The Cronbach's alpha of 0.826 and the Keiser-Meyer-Olkin of 0.707 obtained indicated reliability and sampling adequacy of the data used. Based on the Cramer's V coefficients obtained from the chi-square test; entrepreneur attributes, firm characteristics and external environment demonstrate statistically significant associations with SMEs performance.*

**KEY WORDS:** *SMEs, entrepreneur attributes, firm characteristics, external environment, performance*

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### **I. INTRODUCTION**

In the current global economy, small and medium enterprises (SMEs) are progressively being regarded as powerful engines for economic performance and development of most economies (Islam, Khan, Obaidullah & Alam, 2011). Industrial development policy authorities in most developing countries globally have realised the substantial contribution made by SMEs towards attainment of sustainable local economic development and poverty reduction through creation of job opportunities (Swerczek & Ha, 2003). With regards to South Africa, a study by Abor & Quartey (2010) estimates that approximately 91 percent of formal business entities in the economy are SMEs contributing between 52 percent to 57 percent to gross domestic product. According to the NCR (2010), SMEs in South Africa contribute nearly 61 percent to the country's total employment. In light of the view that research on performance of SMEs has dominated policy discussions on the theme of industrial development (Akhtar, 1997), the importance of SMEs performance cannot be under-estimated; especially in face of the recent global business dynamics and industrialization. In an effort to boost performance of SMEs, rising numbers of public, private and academic institutions are extending considerable support to SMEs across numerous sectors of industries (Ahmed, 2000). Such support is enhanced to be successful through investigation of factors affecting performance of SMEs through investigation of the impacts of entrepreneur attributes and firm characteristics on performance of such SMEs (Woldie, Leighton & Adesua, 2008). Alkari, M d Isa & Baba (2012) also included the external environmental environment in the model analyzing determinants of SMEs performance.

#### **1.1 Research Problem**

Even though numerous new SMEs have been established in the South Africa (Baron, 2003: 253), but high rate of small and medium sized business failure has emerged as a thoughtful concern to government policy makers and industrial development stakeholders (Cornwall & Naughton, 2003:71; and Santrelli & Vivarelli, 2007:3). Statistics from the National Credit Regulator (2011) indicate that about eight in every ten new businesses fail within their first five years of operation.

#### **1.2 Research Objective**

- To examine the strength of the association between entrepreneur attributes and performance of SMEs
- To analyze the magnitude of the association between firm characteristics and performance of SMEs
- To measure the degree of association between external environment and SMEs performance

#### **1.3 Research Questions**

- What is the strength of the association between entrepreneur attributes and performance of SMEs?
- What is the magnitude of the association between firm characteristics and performance of SMEs?
- What is the degree of the association between the external environment and performance of SMEs?

#### **1.4 Hypotheses**

- There is significant association between entrepreneur attributes and SMEs performance
- There exists significant association between firm characteristics and SMEs performance
- There is significant association between the external environment and SMEs performance

#### **1.5 Significance of the Study**

In light of the contribution made by SMEs towards national production, job creation and poverty reduction, the results of this study will yield useful insights regarding the distinct magnitudes to which entrepreneur attributes, firm characteristics and external environmental factors are associated with performance of SMEs. The results will assist relevant stakeholders implement intervention measures that can boost performance of SMEs in the country.

## **II. LITERATURE REVIEW**

Several studies on factors determining performance of SMEs have generally been conducted from two approaches; either by focusing on a quite limited set of variables at entrepreneur and firm level or by incorporating a broader framework that also includes the external environment. The survey method used by Duh (2003) explored owners' or managers' attributes and firm characteristics as the primary determinants of SMEs performance. From the business viewpoint, the concept of business performance frequently refers to the firm's financial performance. However, no universally accepted definition of business performance has been arrived at as yet and as such; business performance is therefore interpreted in several ways from different dimensions (Foley & Green, 1989). Different dimensions that are covered by the concept of business performance include number of employees, survival, profit, and sales performance. Findings from previous research indicate that factors that determine performance of SMEs can be grouped into entrepreneur characteristics (Kristiansen, Furuholt & Wahid, 2003), firm characteristics, management (Swierczek & Ha, 2003), markets (William, James & Susan; 2005), financial resources (Swierczek & Ha, 2003), and external environment (Indarti & Langenberg, 2005). Moreover, Fairoz, Hirobuni & Tanaka (2010) accentuate that the entrepreneurs' demographic profiles have a positive influence on performance of SMEs; pointing out existence of positive correlations between entrepreneurial proactiveness and SMEs performance. A study by Adnan, Abdullah & Ahmad (2011) reveals that human resources management practices significantly affected Malaysian small and medium enterprises' bottom line performance. The results confirm that human resources management practices utilized in the SMEs are a significant factor determining performance of the business. Islam & Siengthai (2010) confirm that most of the primary functions of human resource management such as recruitment and selection, training and development and performance evaluation have significant positive effects on performance of SMEs. Additionally, Cacciolatti, Fearn & McNeil (2011) indicate that small and medium enterprises that use well designed marketing strategies together with good marketing information enhance their performance. Moreover, Mahmoud (2011) also accentuates that higher level of market orientation leads to greater level of performance of small and medium enterprises in Ghana. Keh, Nguyen & Ng (2007) also report a significant positive relationship between information utilization and performance of small and medium enterprises.

In the study conducted by Furuholt & Wahid (2003), small and medium enterprises performance was categorized into three classes of antecedents; namely entrepreneur attributes, firm characteristics and external environmental factors. Entrepreneur attributes included age, educational qualification, managerial competency and experience. Furthermore, Charney & Libecap (2000) found that entrepreneurship education yields self-supporting well performing enterprises. In a similar study undertaken by Sinha (1996), the impact of educational qualification and background on small and medium enterprises performance was examined. The study found that approximately 72 percent of well performing entrepreneurs had a minimum level of technical educational qualification; while approximately 67 percent of the enterprises that did not perform well were operated or managed by entrepreneurs who did not have any technical educational qualification. From the dimension of enterprise characteristics, factors that determine performance of small and medium enterprises include length of time an enterprise has been operating in the specific industrial sector, size of the enterprise, sector within which the enterprise operates and source of capital (Smallbone, Leig & North, 1995). Additionally, Kristiansen, Furuholt & Wahid (2003) found that length of time in operation had a significant effect on business performance. McMahan (2001) also specified that experience on part of the enterprise's owner or manager has a significant contribution towards performance of small and medium size enterprises. Furthermore, Westhead et al. (1995) on the study they conducted on infant small firms found that well performing enterprises with more than one shareholder had greater probability to survive than enterprises with few or no shareholders. With regards to size of the enterprise, McMahan (2001) indicated that enterprise size had a significant effect on performance of the enterprises.

### III. METHODOLOGY AND PROCEDURE

#### 3.1 Introduction

This section describes the research design, sample and sampling technique, data collection, structural validity and reliability of the research instrument; and the statistical analytical technique adopted in the study.

#### 3.2 Research Design

The study was conducted based on descriptive survey, exploratory and correlational designs. This survey design was chosen to ensure collection of data which accurately describes the nature of prevailing conditions at a precise point in time.

#### 3.3 Sample and Sampling Technique

The population for this research survey was tourism sector small and medium size enterprises in Tshwane. Simple random sampling technique was used to select respondents from the target population to ensure that each participant had an equal chance of selection. From the 180 returned questionnaires, 147 were fully completed; yielding a response rate of 81.7 percent. The response rate was considered adequate for statistical reliability and generalizability.

#### 3.3 Data Collection

Primary data was gathered through use the structured questionnaire anchored around the five-point Likert scale. The questionnaire gathered data on the owners'/managers' level of agreement regarding the extent to which specific factors affect performance of their small and medium enterprises. The data on the perceived performance of SMEs was gathered using five point Likert scale questions anchored from strongly disagree to strongly agree.

#### 3.4 Statistical Analysis

The results of the survey were analyzed using descriptive statistics, exploratory and chi-square techniques. The data gathered was processed and analysed using SPSS version 21 statistical package for windows. Prior conducting correlational analysis, reliability and exploratory factor analysis were undertaken to examine reliability and adequacy of the sampling size; respectively.

### IV. RESULTS AND ANALYSIS

#### 4.1 Descriptive Statistics

The mean score statistics of the entrepreneur attributes, firm characteristics and external environment were computed to reflect each distinct factor's level of importance (Table 1).

**Table 1: Mean Scores and Variance of Factors**

Variable	Mean	SD	Eigenvalue	Percentage of variance
Entrepreneur attributes	2.83	0.955	1.405	70.249
Firm characteristics	2.97	0.948	1.791	59.699
External environment	3.14	0.751	1.813	60.425

The results indicate external environment has the highest mean score (=3.14); while the least mean score was for entrepreneur characteristics (=2.83).

#### 4.2 SCALE RELIABILITY

Reliability analysis was used to measure consistency and internal stability of data (Table 1). The Cronbach's Alpha was computed to determine the inter-item consistency and reliability of how well items in the set used were positively correlated to one another.

**Table 2: Scale Reliability of Total Items**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
0.826	0.831	8

The value of the Cronbach's alpha (= 0.826) indicate that the survey items are statistically reliable; thus the items measured a single unidimensional latent construct. Therefore, the data that were collected for this research survey were found to be internally consistent and stable.

**Table 3: Reliability of Individual Items**

Variable	Cronbach's Alpha	No. of Items
Entrepreneur attributes	0.669	3
Firm characteristics	0.638	3
External environment	0.576	2

The reliability results of the distinct dimensions are presented in Table 2. The results are statistically significant considering the number of items used for each construct.

**4.2 Validity of Instruments**

The structural validity and suitability of the sampling items was analyzed using the Keiser-Meyer-Olkin (KMO=0.707); which was statistically significant for the analysis.

**Table 4: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.707
Bartlett's Test of Sphericity	Approx. Chi-Square	139.966
	df	3
	Sig.	.000

The Bartlett's test of sphericity (= 139.966;  $p < 0.05$ ) confirms that data on entrepreneur attributes, firm characteristics and external environment was suitable for further analysis.

**Table 5: Correlation Matrix**

		Entrepreneur attributes	Firm characteristics	External environment
Correlation	Entrepreneur characteristics	1.000	.605	.536
	Firm characteristics	.605	1.000	.575
	External environment	.536	.575	1.000

The determinant of 0.389 indicates that the scale observed is one dimensional; thus the items are not an identity matrix.

**4.3 Chi – Square Results**

The Cramer's V coefficient was used as a post-test to determine the strength of association after the chi-square test of significance has been undertaken. The questionnaire had eight extracted factors that determine performance of small and medium enterprises. These factors have been classified into three major factors; namely entrepreneur attributes, firm characteristics and external environment. The table below shows the chi-square test and Cramer's V coefficients for the factors used in the study.

**Table 6: Chi-Square and Cramer's V Coefficient**

Factor	Chi-square	Cramer's V coefficient
Entrepreneur attributes	3.227E2	0.731
Firm characteristics	1.881E2	0.558
External environment	2.030E2	0.580

Chi-square results in the table above indicate that entrepreneur attributes, firm characteristics and external environment all have associations with small and medium enterprises performance. The Cramer's V coefficients of all the three factors indicate existence of strong association between entrepreneurs attributes and

small and medium enterprise found performance. Slightly above moderate strengths of association are found between firm characteristics; and between firm characteristics and small and medium enterprise performance.

## **V. CONCLUSION AND RECOMMENDATIONS**

### **5.1 Conclusion**

The purpose of this research was to analyse the impacts of entrepreneur attributes, firm characteristics and the external by environment Tshwane region. The results confirmed that entrepreneur attributes, firm characteristics and external environmental factors have some significant effects on performance of small and medium enterprises.

### **5.2 Recommendations**

The findings that entrepreneur attributes, firm characteristics and external environmental factors all have statistically significant positive impacts on performance of SMEs in Gauteng province imply that small and medium size enterprises should improve these factors. Entrepreneurs of small and medium businesses should strategically choose competitive areas for location of their businesses in order to sustain competition in the market. Improvements in working experience by entrepreneurs are also a necessary ingredient for enhancing performance of their enterprises.

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