

The Influence of Business Incubation Services on The Performance of SMEs in The Tourism Industry

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Abstract

Research studies by academics, financial experts and development economists have all harped on the imperativeness of promoting the establishment of Small and Medium Enterprises (SMEs) as an instrument for the economic development and engine of growth, as well as employment generation. However, various countries employ various strategies in promoting SMEs. One such strategy is the Business Incubation Strategy, where potential entrepreneurs which cut across the broad spectrum of the economic sector, from the production of goods and services like tourism; are attached to well established businesses to learn and imbibe the rudiment of the business for a specified period. They are then given financial and logistics support for their start-ups; having learned the nitty-gritty of the trade. This paper is conceived to look at the influence of Business Incubation Services as a strategy in driving the performance of SMEs in the Tourism Industry in South Africa.

Key words: SMEs, strategy, business incubation, tourism, performance, influence

J.E.L. classification: M10, M13, M19

1. Introduction

In today's rapidly changing and dynamic global economy, Small and Medium Enterprises (SMEs) have increasingly become a powerful policy/tool and an engine for economic growth and development. Most governments, particularly in emerging economies across the world today have realized the importance of supporting the provision of business incubation services that will function as a midwife and enhance performance of SMEs across diverse industrial sectors of the economy. Given the prevailing harsh macroeconomic conditions experienced by the South African economy recently, the government as a matter of deliberate policy has produced and adopted various strategies in supporting SMEs for the promotion and sustainability of economic growth and development, particularly in the dynamic competitive tourism sector. This is aimed and geared towards employment generation as an utmost priority for the government of South Africa (National Treasury, 2013:1).

According to the Tourism Act (1993) and the 1996 White Paper on the Development and Promotion of Tourism in South Africa, tourism is considered a prime national priority with the potential to contribute significantly to the country's economic development, employment generation and sustainable growth; and poverty reduction (National Treasury, 2013: 1).

Consequent upon the intervention measures adopted by the government, this research sought to investigate the influence of one of the strategies, which is the business incubation service that have been extended so far on the performance of SMEs in the tourism sector. Furthermore, according to Dutiro (2009:18), SMEs are created by innovative entrepreneurs who have great passion for growth and development but lack the business and technical skills needed to successfully carry out the business plans.

In support of this view, the Small Business Development Agency (SEDA, 2011), show that eight in every ten new businesses fail within their first five years of operation. Such a gloomy picture of the fate of SMEs birthed the need to look at the effectiveness of business incubation services.

2. Literature review

A perusal of various books, articles and journals on SMEs have always emphasized in unanimity their importance in promoting economic and wellbeing of the citizens but vary in approach and strategy. While some emphasize on formal business training, others adopt the business incubation method as a strategy in promoting SMEs as a vehicle to promote entrepreneurship for economic development.

In its generic sense, the term incubation system is often used to describe a wide range of organizations that, in one way or another, help entrepreneurs develop their ideas from start-up through commercialization. By general definition, incubation is a unique business support model that contains in-built capacity to contribute valuable interventions for enterprise creation and development (Eshun, 2009:163). Meru and Struwig (2011:7) define a business incubator as a nurturing environment for start-ups that provides business-support programs and infrastructure that enables businesses to develop and thrive within a controlled environment. Incubators are basically designed and promoted to address inherent market failures and deficiencies through provision of favorable controlled conditions to spur and aid in the growth of new ventures (Shahzad et al., 2012:6).

According to Hamdani (2006:17), a business incubator is defined as a facility and set of activities through which entrepreneurs can receive essential information and aid, value-added shared services and equipment that may otherwise be unaffordable, inaccessible, or unknown to the entrepreneur. Thus, incubators are facilities designed to meet the needs of business; supply proactive support and advice to accelerate growth; increase access to tools, information and contacts; providing aid from business experts and other entrepreneurs and investors. Moreover, Kushnirovich and Heilbrum (2008:8) describes a business incubator as an organization that systematizes the process of creating successful new enterprises by providing them with a comprehensive and integrated range of services, which include: incubator space which is made available on a flexible, affordable and temporary basis; common services including secretarial support and shared use of office equipment; hands-on business counseling and access to specialized assistance such as research and development (R&D) and venture capital; and networking activities operating as a reference point inside the premises among entrepreneurs.

From a relatively similar dimension, Cheng, Jackson, Haynes and Schaeffer (2008:54) suggest that a small business incubator is a facility that aids the early-stage growth of companies by providing rental space, shared office services, and business consulting assistance. Wessner (2007:31) states that a business incubator is an organization of services designed to nurture young businesses. A wide range of services can be offered within an incubator, including management support, access to financing, business or technical support services or shared office services such as access to equipment, flexible and affordable leases, and expandable space. Conlin and Stirrat (2008:205) claim that small business incubators are private, public, or academic-sponsored facilities that supply rental space, shared office services and business consulting services to infant small and medium enterprises.

Some authors regard a business incubator as a property with small work units, which provide an instructive and supportive environment to entrepreneurs at start up and during the early stage of business. They assert that incubators offer three main ingredients in contribution to the growth and development of small businesses: namely:

- i. an entrepreneurial learning environment.
- ii. ready access to mentors and investors; and
- iii. visibility in the marketplace

Business incubators thus supply services and facilities that help entrepreneurs to use an established organization. In addition to incubators offering a safer heaven for business start-ups with the reduced risk of failure, business incubation also offers an opportunity to businesses that may not otherwise be able to initiate a business on their own. In conclusion, business incubation is a means by which small businesses can turn vision into reality with reduced risks (Buys & Mbewana, 2007:112). Based on the numerous definitions of business incubation provided above, business incubation in this study can therefore be summarized as a process of effectively nurturing infant business enterprises with distinct tools and resources from start-up phase to the maturity stage where they can sustainably work independently.

Given the enormous contributions made by small and medium enterprises towards job creation and poverty reduction, the role of business incubation in the development and sustainable growth of small, medium, and micro-enterprises (SMMEs) is vital in an economy. According to Evans et al. (2006:25), a widely recognized new method for developing new small businesses is industrial incubation. Business incubation systems are oriented towards addressing problems of economic development through improving the entrepreneurial base with regards to either or both quantity and quality (Kushnirovich & Heilbrum, 2008:8). As proposed by the Small Business Development Agency (SEDA, 2012:12:), the purpose of business incubators is to promote the growth and development of new enterprises by providing flexible space at affordable rates; a variety of support services; access to management, technical and financial assistance; and opportunities to interact with other entrepreneurs and business experts in the relevant sector. Incubators make up of business aid programs targeted at start-up and fledgling firms. They offer access to business and technical aid provided through in-house ability and a network of community resources; shared offices; research or manufacturing space; basic business support such as telephone answering and clerical services; and access to common office equipment including copy and fax machines.

Incubators support emerging businesses at their early, most vulnerable stages. In addition, incubators promote new firm growth, technology transfer, neighborhood revitalization, and economic development and diversification. In recent times, most incubators have been seen to be focusing much on assisting entrepreneurs who are creating and managing new companies (Gill, 2005:17). The focus is concentrated towards reducing risks associated with new business formation. Business incubation catalyzes the process of starting and growing companies. As a proven model, it provides entrepreneurs with the ability, network and tools they need to make their ventures successful. This clearly shows that, if meticulously organized and implemented, business incubation can be effective towards enhancing sustainable turnover generation of small and medium enterprises in the medium to long-term. The term business incubator embraces a wide range of institutions, all of which are fostering the creation and development of SMEs whenever this has not happened spontaneously.

Deliberate efforts are made to ensure that the services needed by the entrepreneurs are provided in a comprehensive and integrated fashion. The primary goal of a business incubator is to facilitate economic development by improving entrepreneurial base. For this reason, most of the incubators are directly used by national or local governments.

3. Research methodology

The survey research method was used for this study and a self-administered structured questionnaire was used as the primary data collection instrument. The reasons for using the self-administered structured questionnaires, which invariably were consciously and meticulously disseminated by hand, via e-mail, are that they cost effective, which is also relatively easy to analyze, which ultimately reduces interview biases to the barest minimum.

Participants were requested to indicate the nature of the influence business incubation services have had on job creation and turnover generation capacity of tourism SMEs. It was anchored on the five-point Likert Scale: ranging from **"not at all"** to **"extremely important"**. In continuing further with the analysis, the incubation tenants were further requested to rate the magnitudes to which the listed incubation services or facilities provided to them have been effective based on their experiences and perceptions. The questions on this section were anchored on the five-point Likert scale ranging from **"not at all"** to **"extremely effective"**.

The questionnaire used for data collection from the research participants was developed based on the following structure: Section I: Participants' perceptions on the extent to which business incubation services have been important towards enhancing turnover of the tourism small and medium enterprises; Section II: Participants' perceptions on the extent to which business incubation services have been effective towards enhancing turnover of the tourism small and medium enterprises; and Section III: Respondents' recommendations on business incubation strategies that can be implemented to enhance turnover of the tourism small and medium enterprises.

3.1 Administration of Questionnaires

A highly structured questionnaire was physically distributed to the relevant participants by a team of two data enumerators and two senior research analysts from a local research company for data collection purposes. The team observed all the necessary research ethical considerations including securing informed consent and voluntary participation by all participants. The team further explained to all research participants the structure of the questionnaire, the information held therein and the recommended expected time for completion and return of the questionnaires for data capturing and analysis. Based on the Likert-scale format, the respondents were requested to respond to questions raised on every construct specified in the questionnaire. The rationale behind delivering the questionnaires physically to research participants was to ensure that the questionnaires are handed over to relevant participants to yield an effective response rate.

3.2 Validity of Instrument

The validity of the measurement tools refers to the extent to which the research instrument measures what it is intended to measure. According to Cozby (2004:90), the major common types of validity examined in research are face validity, content, and internal validity. The validity of this research study's data collection tool was enhanced through conducting a pilot study wherein all anomalies detected were rectified by the statistical analyst.

3.3. Statistical Validity

Overall, the structural validity of the measurement tools was examined using factor analysis; through which total correlation analysis of items was evaluated. Prior to conducting factor analysis, the Keiser-Meyer-Olkin (KMO) analysis was undertaken to determine suitability of the size of sampling and sample size. The KMO value was used to show whether the gathered questionnaire data was suitable for factor analysis and principal component analysis. Furthermore, the Bartlett's test of sphericity of the research survey items was examined to determine whether factor analysis could sufficiently be performed on the data. Additionally, the scale was examined to prove whether the items will not arise to an identity matrix. The total declared variance computed was analyzed to determine the cumulative total variance explained by selected components based on the initial Eigen values.

3.4. Scale Reliability of Items

To figure out the degree to which the chosen set of items will measure a single one-dimensional latent construct, internal consistency (scale reliability) of the questionnaire items was conducted using the Cronbach's alpha with the following computed specification:

$$\alpha = \frac{K}{K-1} \left(1 - \frac{\sum_{i=1}^K \sigma^2 Y_i}{\sigma^2 X} \right)$$

Where:

K = number of items

$\sigma^2 X$ = variance of total scores

$\sigma^2 Y_i$ = variance of item i for the current sample

The methodological data triangulation approach was undertaken to ensure reliability of data collected. Struwig and Stead (2001) point out that reliability is the extent to which test scores are accurate, consistent and stable. As such, the Cronbach's alpha was used as the common suitable tool for interval-level measurement involving multi-item scales. The scale reliability of items was conducted to examine homogeneity of internal consistency of the underlying constructs (Cooper & Schindler, 2006) of the study. This implies analyzing whether the questionnaire items will measure the same latent variable, which should be the case if the survey was conducted in an unbiased manner.

4. Findings

From the total 112 questionnaires collected, 103 were fully completed: yielding an effective response rate of 91.96 percent. Under the Business Incubation Services, we have the provision of Infrastructure facilities for SMEs, in terms of affordability of office /premises rentals.

From the 103 surveyed respondents, 17 percent of them indicated that provision of affordable office or premises rentals in terms of rentals was extremely important; while 37 percent of the participants expressed that affordable premises rental was particularly important. Moreover, approximately 44 percent of the respondents indicated that affordability of office rentals was a fairly important element of business incubation. Overall, affordability of premises was therefore regarded as being crucial towards enhancing turnover generation of SMEs in the tourism sector.

4.1 Adequate business operating space

The response in terms of adequate business operating space shows that about half of the respondents (55.3 percent) showed that adequate operating space was important towards enhancing operations of their SMEs. About 23.3 percent of the participants revealed that provision of adequate operating space was very important; while 12.6 percent expressed that the respective incubation service was extremely important. Therefore, provision of adequate operating space was rated important.

From the point of view of strategic location or visibility of business premises, half (46.6 percent) of the participants revealed that strategic location or visibility of business premises was important in enhancing operations of their SMEs. Additionally, approximately 35.9 percent of the cases indicated that strategic location was extremely important; hence strategic location was regarded important by the respective tourism sector of the small and medium enterprises. The centrality and the prime location of place of office equipment and related components were considered vital and important. Half (41 percent) of the participants reflected that availability of office equipment and related components was very vital to them; while approximately 29 percent of the cases specified that provision of office equipment was extremely important. About 25 percent expressed that provision of office equipment was important. Overall, availability of office equipment and related components was therefore regarded important. In the area of Shared Office Facilities 50.5 percent of the participants indicated that provision of shared office facilities was very important for their SMEs; while 35 percent specified that delivery of the respective business incubation services was extremely important for their SMEs' operations. Therefore, shared office facilities were considered important in enhancing the operations of the respondents' SMEs in the tourism segment.

One of the critical elements in the Business Incubation services is the provision of a secured workplace environment. Based on the outcome of the responses from the study more than two thirds (79.6 percent) of the participants revealed that provision of secured workplace environment was very important (37.8 percent) and extremely important (41.8 percent) for their businesses. Nearly 20.4 percent of the participants indicated that availability of secured workplace environment was important. Hence, this business incubation service was important for operations of the tourism segment SMEs.

Government provision of the business incubator services by facilitating through Local and international marketing opportunities are also a very critical to the survival and sustainability of the SMEs in the tourism sector of the economy. About 40.8 percent of the participants indicated that facilitation of local and international marketing opportunities was very important; while 29.1 percent indicated that facilitation of the respective marketing opportunities was extremely important. Approximately 25.2 percent expressed that the same marketing opportunities were important for their businesses.

4.2 Marketing networking channels

Based on the study findings nearly half (44 percent) of the cases reflected that facilitation of marketing networking channels was important for their SMEs. Furthermore, 37 percent of the participants showed that facilitation of such services was very important, while 17 percent rated facilitation of the respective channels as extremely important. Hence, this service was certainly important. Government support is helping SMEs in the tourism industry subsector of the economy

with facilitating participation in marketing exhibitions; particularly in trade fairs both locally and international to enhance their overall success.

4.3 Training programs

Access to training programs by SMEs to periodic and continuous development as part of the business incubation services is also a critical component in expanding the tourism industrial sub-sector of the economic, taking advantage of modern information and communication technology in enhancing service delivery. Training in ability building skills, promotion and marketing skills, financial management skills is key to the success, scalability and sustainability in the sector.

From the questionnaire administered, half (50 percent) of the respondents indicated that facilitation of business promotion and marketing skills was very important for the SMEs. Nearly 36 percent of the cases revealed that such promotion and marketing skills was extremely important; while 36 percent reflected that facilitation of such skills was extremely important. Only 14 percent of the participants revealed that equipping respondents with such skills was important.

In the area of economic management 39.8 percent of the respondents affirmed that the provision of training in financial management skills was extremely important; while 41.7 percent indicated that provision of the respective service was very important for their SMEs' turnover generation. Only 18.4 percent revealed that training in economic management was important. While in capacity building close to three quarters of the respondents were of the view that facilitation of capacity building skills was very important (43 percent) and extremely important (30 percent) towards enhancing turnover generation of their SMEs. Nearly 25 percent of the respondents also indicated that facilitation of the respective skills was important for their SMEs.

In the area of product development skills, a sizeable number of the respondents were unanimous in their expression of its importance, consideration the dynamic nature of the industry. Also, based on the analysis of the data from the study approximately forty-one (40.8) percent of the participants rated provision of product development skills partially effective; while 41.7 percent showed that the facilitation of such skills was effective. Moreover, approximately 15.5 percent revealed that provision of the respective skills was remarkably effective while only 1 percent indicated that provision of such business incubation skills was extremely effective. This means that in overall this aspect of the incubation service provision score positive.

The provision of consultancy services which includes the development and review of business plans among the incubation services was also rated highly by the respondents. Based on the analyzed data sieved from the questionnaires, above half (54.4 percent) of the surveyed SMEs in this sector revealed that the provision of development and review of business plan services was effective; while 19.4 percent showed that provision of such services was very effective. Additionally, 26.2 percent provision of development and review of business plan services was partially effective.

5. Conclusion

In addressing the research aims based on the research questions, the hypotheses of this study were as follows: i. Business incubation services are important towards enhancing turnover of SMEs in the tourism segment, ii. Business incubation services have not been much effective towards enhancing turnover of SMEs in the tourism segment, and iii. There are significant mean differences between the perceived importance and perceived effectiveness of business incubation services on turnover of SMEs in tourism segment, iv. Strategies that can be supplied to enhance effective provision of business incubation services are business collaboration strategies, research and development strategies, marketing and promotion strategies, financial management strategies, networking strategies and project management strategies. It is pertinent to mention here based on the analysis of data obtained during this research virtually all the business incubation services highlighted in the research questions are not less important in enhancing and spurring increased turnover of SMEs in the tourism industrial subsector in the captive market.

Considering the discussions covered in the preceding sections of this study, it is imperative that the providers of business incubation services to tourism sector to the SMEs) in Tshwane should therefore work towards improving effectiveness in provision of the respective business incubation services that they provide to small and medium businesses. Based on the results explored from the study, effectiveness in supplying business incubation services can be focused on improved competitiveness and turnover.

However, it is important to highlight here that this study carried some limitations. Firstly, there are few stakeholders supplying business incubation services and facilities to tourism sector small and medium enterprises in Tshwane. This limitation can be addressed well in future when many stakeholders participate in providing such business incubation services to SMEs in the respective tourism segment.

Secondly, although the sample used for this study was statistically significant, the sample size was not adequate to draw generalized conclusions on a larger scale regarding the state of effectiveness of business incubation services to SMEs in the tourism sector. As such, the sample size used placed a considerable question on the generalizability of the study's findings. To address this limitation, further studies on this subject should use a larger sample that covers the tourism sector's small and medium enterprises. These limitations cited in this section highlight an opportunity for further research in which all the respective limitations found in this research study can be addressed.

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