

## **Entrepreneurship and Small-Medium Enterprises Impact on the Egyptian Tourism Industry**

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### **Abstract**

The tourism industry in Egypt is one of the most important sectors in terms of its contribution to the economic growth of the country. For the past years, Egypt's economy and tourism witnessed a sharp decline that affected all economic sectors in the country. However, it started to recover during the past period according to economic and governmental statistics. The Egyptian tourism industry is characterized by fragmented business activity. In fact, a considerable percentage of the tourism industry activity is dominated by small- medium enterprises (SMEs). Moreover, entrepreneurship prevails in all the economic sectors and all the types of organizations, but the industry and the activity of SMEs are particularly the main domain where entrepreneurship is essential for economic growth and job creation. Additionally, the concept of entrepreneurship has attracted more attention worldwide for the past few years; due to the fact that it is not only vital for a healthy economy, but is also critical for sustaining prosperity and creating new jobs. The aim of this research paper is to analyze the development trends of entrepreneurship related to small and medium

enterprises in the tourist industry of Egypt and to find out how entrepreneurship in SMEs plays a relevant role in the development of economic growth in Egypt generally, with emphasis on its impact on tourism, specifically, as one of the major growing industries in the world. The research conducted is qualitative in nature that is based on primary and secondary data. The research conducted proved the tested hypotheses. Finally, tourism SMEs and entrepreneurship has a significant impact on economic growth. Additionally, SME and entrepreneurship has a positive impact on tourism development process as a whole in Egypt.

**Keywords:** Small- Medium Enterprises (SMEs), Entrepreneurship, Tourism, Egypt.

### **1. Introduction**

The Egyptian economy is one of the most diversified economies in the Middle East and North Africa (MENA) region; tourism, agriculture, manufacturing and services sectors all contribute with relatively substantial ratios to the GDP (Gross Domestic Product) and GNP (Gross National Product). As a result of

the recent structural economic reforms, the Egyptian economy is achieving high growth rates—and an attractive investment climate has occurred, due to the positive developments in infrastructure, transportation networks, communication, energy, skilled labor, modern industrial cities, free zones, banking and stock markets. Indeed, the early beginnings of this century have marked the new Egyptian entrepreneurship initiatives. The Small, Medium and Micro Enterprise Policy Development Project (SMEPoL) first appeared in June 2000 as a collaboration with the Canadian International Development Agency (CIDA) and the International Development Research Centre (IDRC) - the Canadian Executing Agency and partner for the project. For four years, the project has been supported by the Ministry of Economy – later the Ministry of Foreign Trade (MOF, 2015). This has been reflected in the development of policies, legislation, and regulations supporting M/SME development in Egypt. Additionally, they have focused on the growth of entrepreneurs driven more by effective stakeholders than by government agencies or traditional business associations. These stakeholders include a small group of individuals from the private sector who have been involved in an entrepreneurship development movement in the country. They have set up accelerators, incubators, co-working spaces, angel groups, funding platforms, venture capital funds and other start up training initiatives (MSME, 2014).

As a matter of fact, the two concepts of entrepreneurship and small-medium enterprises (SMEs) are used interchangeably and many researchers and experts confuse the two concepts. However, the two concepts are different. Indeed, entrepreneurs like to create, change, develop new ideas and take risks in order to achieve success; while SMEs owners

like to keep business operation constant and work under stable working conditions. In the tourism industry, SMEs should adapt the entrepreneurship concepts and ideas to succeed. This would enhance growth opportunities for the whole tourism industry. The entrepreneurs usually generate tourism businesses opportunities; they have a significant role of innovation and modifying the opportunities that comes from the tourism industry. Since most tourism and hospitality businesses are small and medium size, therefore, they need substantial entrepreneurial activity. Finally, entrepreneurship through SMEs is an essential engine for success in the tourism and hospitality industry (Ciochina et al, 2016).

In the past, economic growth was considered accessible only through large enterprises due to the advantage of economies of scale and technological knowledge, which are believed to be the engine for economic growth. However, one of the most important researches concerning this issue is conducted in 2005 (Beck et al, 2005). It provides the first evidence on the linkages between SMEs, economic growth and poverty alleviation. A regression of GDP per capita growth on SMEs was done based on the 1990s data from 45 countries. The share of the manufacturing labor force was used to measure the relative size of MSMEs. The study concluded that there is a significant positive relationship between SMEs and the GDP per capita growth after controlling other characteristics of countries involved that might account for differences in economic growth. It has been proved that SMEs enhance economic growth, foster economic development and be a catalyst for poverty reduction (Beck et al, 2005).

Since tourism is one of the world's largest industries and has a major contribution to the economies of developed and total economy

and a substantial percentage of employment; the positive impact of tourism can be maximized by enhancing employment opportunities for local communities settled beside historical sites. Local economies can benefit from tourism demand for local goods and services and the development of more opportunities for local businesses. Indeed, after the 2011 political transition, the number of tourists visiting Egypt falls dramatically and the sector's slow recovery has created considerable burden on the struggling economy. USAID-financed programs for restoration and training have always helped to ensure the tourism industry recovery. Egypt can heavily depend on the sector's traditional role as an engine of economic growth and employment (USAID, 2017).

Egyptian tourism has always been one of the main industries attracting innovative entrepreneurs who are willing to invest. Recently, entrepreneurship, business development and innovation through SMEs are essential drivers for tourism and hospitality industry success. They contribute to this success through generating income, providing job opportunities and achieving destination development. Due to the dynamic nature of the tourism industry, there is an urgent need for the small medium enterprises entrepreneurship. Entrepreneurship is needed for both creating new business opportunities and developing existing tourism businesses.

Tourism is one of the most prominent service sectors having great potential to grow more in Egypt. Egypt is popular by its diversified tourism product. Indeed, SMEs is dominating Egyptian tourism industry due to their vast number, generate a variety of benefits for the tourism destinations because of the direct contact with tourists and encourage tourists to spend locally in tourism destination. However, these SMEs face several problems like rapid

changes in demand, lack of skill and training for employees, limitations of the finance and time consuming administrative procedures. Several authors contributed to SMEs in others sectors of the Egyptian economy, but in the tourism industry, contribution is less than expected.

### 1.1. The Aim of Research

Additionally, the aim of this research paper is to analyze the development trends of entrepreneurship related to small and medium enterprises in the tourist industry of Egypt and to find out how entrepreneurship in small medium enterprises plays a relevant role in the development of economic growth in Egypt generally, with emphasis on its impact on tourism, specifically, as one of the major growing industries in the world.

Finally, this research is conducted to prove two main hypotheses. These are:

**H1:** Tourism SMEs and Entrepreneurship could contribute to economic growth in Egypt

**H2:** Tourism SMEs and Entrepreneurship might have a significant impact on Egyptian tourism destinations

## 2. Literature Review

### 2.1. Small- Medium Enterprises (SMEs), Entrepreneurship and Tourism

One of the crucial issues that need to be addressed before reviewing literature in this research is the alternative use of the terms: entrepreneurship and SME. Previous studies have stated that several authors have used both SME and entrepreneurship interchangeably and alternatively in their research work (Darren and Conrad, 2009). However, the two concepts are not the same. SMEs and entrepreneurship are operating to achieve the same goal. Therefore, differentiating between SMEs and entrepreneurship is crucial as both concepts are not similar (Kurtako and Richard,

2004). Darren and Conrad (2009) note that the difference between SMEs and entrepreneurship is debatable. However, the success of SMEs depends on the innovative ideas of entrepreneurs. Entrepreneurship is the pathway for SMEs to create new products, deal with risks and face the challenges.

Small- Medium enterprises (SMEs) are firms or businesses arising as a result of entrepreneurial activities of individuals. One crucial thing to note about SMEs definition is that certain criteria have been used to define what SME stands for, most especially according to countries, sizes and sectors. Indeed, all studies assure that all definitions have common features like having small market share and number of employees, are managed in a personal way, are independent of external control and do not have an impact on market prices (Cooper and Micheal, 2008; Karanasios, 2008; Parker, 2009; Simmons et al, 2008). A small tourism business is financed by one individual or small group and is directly managed by its owner(s), in a personalized manner and not through the medium of a formalized management structure (Parker, 2009).

SMEs play a major role in the economic development of both developed and developing countries. SMEs represent around 46% of the world's GDP and provide around 50 to 60% of the world's employment opportunities. SMEs are popular due to their various local benefits, as they provide affordable goods and services to local communities, create employment opportunities for low-skilled labor, and encourage the use of simple and local technology. Indeed, SMEs support low income local communities and enhance their role in economic development. Additionally, SMEs play a vital role in supporting high-capital investment by constantly offering wide streams of novel

ideas and creative working solutions. SMEs are an essential element of a changing industrial society. SMEs stimulate private ownership and entrepreneurial skills; they can work flexibly and adapt quickly to changing market conditions (demand and supply); they help diversify economic activities and make significant contribution to reduce trade deficit (World Bank, 2004).

It is important to mention that the majority of tourism businesses comply with standard definitions of tourism SMEs because they are small in terms of both number of employees (usually less than 20) and market share (Blichfeldt, 2005). Tourism is traditionally a SME industry (Morrison, 2008; DTI, 2003; Bastakis et al, 2004), as the great majority of tourist facilities are run by SMEs businesses (Avcikurt, 2003).

Entrepreneurship can be defined as a process of exploring, evaluating and grasping opportunities (Kurtako and Richard, 2004). Additionally, entrepreneurship is seen as a process involving recognizing opportunities in the environment, utilizing resources to take advantage of such opportunities in order to provide quality goods and services for consumers and making as a reward for risk taken (Ogundele, 2007). Accordingly, entrepreneurship is explained as a creative process of organizing, managing enterprises and mitigating the risk involved in the enterprise (Rebecca and Benjamin, 2009). It is a process of new business creation and assuming the risks and rewards (Hisrich and Peters, 2002).

In the preliminary stages of tourism development, SMEs entrepreneurship have an essential role, specifically in new tourist destinations where the multinational firms and international hotel chains are not yet interested in investing because of the uncertainty of the

future conditions and relatively small size of the potential market opportunities (Chang, 2011). However, large tourism organizations such as the airlines companies, tour operators and hotel are able to take advantage of their size to launch and dominate new tourism markets. They can standardize products and services to enable them to keep costs down and increase profits, thus, achieving high economies of scale which allow them to increase productivity and growth. To encourage economic development, entrepreneurship is considered a major force in generating growth and influencing innovation and change. Finally, tourism SME can also be a source of innovation and help shape destination development.

### 2.2.Small- Medium Enterprises (SMEs), Entrepreneurship in Egyptian Tourism Industry

Since the 1980s Egypt’s SMEs were put into consideration by the government and the attention was explicitly turned to them in the 1990s when government realized the need for strong private sector in need as SMEs are considered the main engine for job creation, and increasing the GDP. Egypt has put its plan for poverty reduction in 2005 by ministry of planning, economic research forum and UNDP, a part of that plan was generating more jobs through SMEs. SMEs also help in increasing the average income of women in Egypt. The Egyptian government does not only support SME sector, it also declares that it depends on this sector to achieve the country’s future goals for the next years. In fact, SMEs is one of the main components of Egypt’s agenda for social and economic development. The Egyptian government is always trying to support and provide the healthy environment needed for SMEs to perform competitively and efficiently (Salama, 2012).

SMEs constitute approximately 91% of all firms in Egypt. The large number of SMEs is directly related to the informal sector. This is considered to be an obstacle in the process of development and internationalization. Indeed, Figure 1 shows the Formal SMEs versus the Informal SMEs according to different sectors in Egypt. In Egypt, SMEs largely depend on imports, but do not contribute to exports. Indeed, 95% of small firms and 82% of medium firms do not contribute to the exporting activity in Egypt (EMNES, 2017). Moreover, most micro- enterprises are informal and do not benefit from government initiatives supporting their development (Saif and Ghoneim, 2013).

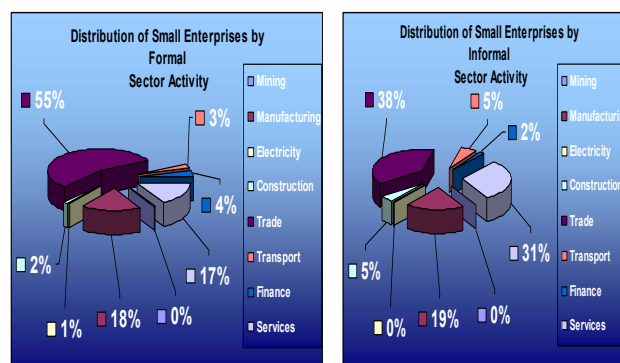


Figure 1: Distribution of SME Formal vs Informal Sector

Moreover, according to the GEM 2017 report, results from 2015 have shown that the SMEs contribution to GDP reached 80%. Tourism and utilities—which account for 2.9 percent and 1.7 percent of the GDP respectively in the base year—are part of the service sector (all shown in Figure 2), which accounts for 52.2 percent of the overall GDP in the base data. The overall service sector is thus the largest single sector in the Egyptian economy (Saif and Ghoneim, 2013). The service sector will grow by 2.1 percent faster than the base as almost all the individual service sectors experience an increase in output annually in response to a more vibrant tourism sector. The growth in services along with that of the

agricultural sector—the latter sector constituting 9.9 percent of GDP in the base run—generate an overall growth rate of GDP that is 1.0 percent higher than in the absence of a rebound in tourism (Ayadi and Sessa, 2017).

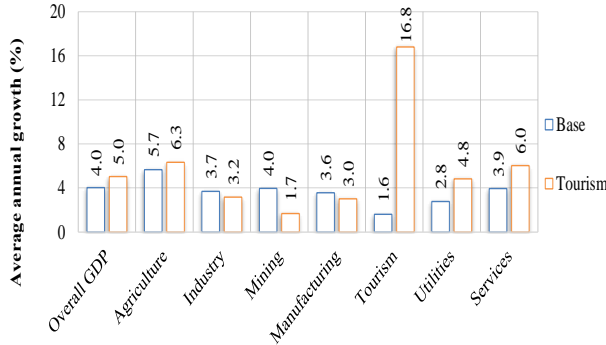


Figure 2: Average Annual Growth (%) in GDP at Factor Cost by Sector (aggregate)

In Egypt, firms are considered micro when they employ less than ten employees, small and medium when they employ between ten and two hundred employees, and large above that according to the definition of the Central Bank of Egypt. In 2017, micro enterprises constituted approximately 91% of all firms, small and medium ones around 8% of the total and large firms less than 1% (Central bank of Egypt, 2017). In the tourism industry, micro-firms are mainly travel agents, souvenirs shops and micro transportation countries. These micro- firms serve the local community, as well as, individual tourists. This is because they don't own the capabilities to serve large tourist groups. Therefore, they serve them on individual- unplanned basis. Figure 3 points the predominance of micro- enterprises in the country's private sector. Egyptian micro -firms have little potential for expansion and suffer from a range of structural weaknesses, including, but not limited, to the lack of managerial skills and financial resources, intensive competition and low profit margins.

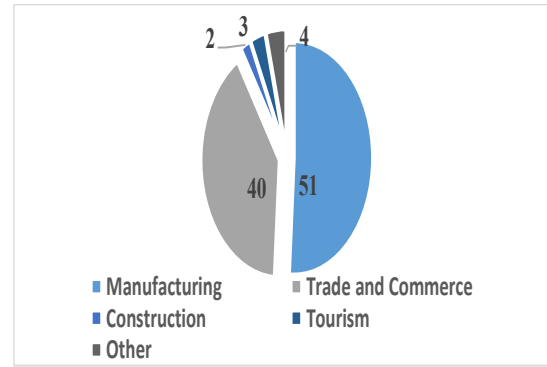


Figure 3: Sectoral Distribution of SMEs in Egypt

Figure 3 shows the distribution of SMEs according to sectors in the country in 2014. It is evident that such enterprises are mainly concentrated in the manufacturing and trade sectors, in which operate roughly 51% and 40% of the total number of SMEs surveyed. However, the distribution of firms by size and employment contribution shows that large enterprises dominate the manufacturing sector, accounting for 87% of total production and 53% of total employment. Consequently, SMEs contribute to about 47% of total employment in the sector and only 13% of the overall production (Moukhtar and Abdel Wahab, 2015).

Entrepreneurship is promoted to mitigate high youth unemployment rates and is defined in connection with the establishment or development of SMEs (Moukhtar and Abdel Wahab, 2015, pp. 15)”. Additionally, 75% of the employed labor works in 2.5 million SMEs available in Egypt (Ahmad and Abdel Aziz, 2015). The majority of SMEs in Egypt are in the services sector and are not involved in the mining sector. Almost 90% of these enterprises are concentrated in just two sectors—the manufacturing sector (51.1%) and the wholesale trade sector (40.5%) (EMNES, 2017).

In Egypt, where SMEs contribute to nearly 80% of the national GDP and have a vital role in generating employment opportunities in

both the formal and informal sectors, providing nearly 75% of total employment in the private sector, a share reaching 99% in non-agricultural sectors. Additionally, the informal sector represents a large share of national GDP. Informal employment is an important opportunity for highly educated workers, but is often associated with low wages, poor working conditions and limited mobility to formal sector jobs. It is estimated that nearly 58% of total employment in the country is created in the informal sector, a share reaching 70% among rural workers as compared to 43% among urban ones (Angel-Urdinola and Tanabe, 2012).

During recent years, Egypt has recognized the importance of having a policy framework to support SMEs. Under the terms of a 2004 law, the government has developed a structured policy framework for SMEs that is the responsibility of the Social Fund for Development, the main public player and policy coordinator for the segment of the SME population. Additionally, the Social Fund for Development has recently developed targeted policy tools to help SMEs establish and grow their businesses by providing a range of programs such as business support services, microfinance activities and a network of business incubators. Additionally, Egypt has achieved considerable improvements in delivering targeted policy to enhance SME innovation through dedicated governmental centers and networks (MSME, 2014).

However, the Central Bank of Egypt launched in December 2008 an initiative, as an integral part of the Second Phase of the Banking Sector Reform Program (2008-2011), to enhance SMEs access to finance and banking services. In this respect, and due to the importance of the availability of timely and accurate information, the Central Bank of Egypt (CBE) and the Egyptian Banking Institute (EBI)

commissioned the Central Agency for Public Mobilization and Statistics (CAPMAS) to conduct an SME nation-wide census, fully focusing on value added formal economic activities on a full census basis. The Center of Surveys and Statistical Applications (CSSA) at the Faculty of Economics and Political Science, Cairo University undertook the project on-site quality control. This survey includes quantitative and qualitative characteristics of each company or unit. This includes identifying the number of employees, legal status, economic activity, level of exports, sales turnover, invested capital and the problems facing each company in dealing with banks, etc. (EMNES, 2017)

In Egypt, it is observed that most small-medium entrepreneurship initiatives are concentrated in manufacturing sectors, mainly the introduction of new or significantly improved technological products or processes. Additionally, small-medium entrepreneurship in service has been ranked in a second category compared to manufacturing sectors (Toivonen, 2004). Actually, services are differentiated according to their unique characteristics that are described in the majority of literature: intangibility, co-production/interactivity, production and consumption simultaneously, heterogeneity and information-intensity (Miles, 2004; Gallouj, 2002; De Jong et al, 2003). After introducing technology in production, information and administration the importance of economies of scales has been eliminated and SMEs became innovative and efficient in intermediate goods production (Gebremariam et al, 2004).

However, SMEs face several challenges in Egypt. Indeed, only 6% of SMEs have access to bank loans, compared to 18% of large firms. Other important challenges include complicated regulations and administrative

procedures, corruption and other market distortions, as well as, limited availability to the skills required by firms to grow and inadequate skills of entrepreneurs themselves. These last two dimensions are reflected in the problem of mismatching skills (Ayadi and De Groen, 2014). Moreover, SMEs in Egypt suffer from the absence of strong and effective connections with large firms - that is the absence of strategic alliances. They also suffer from "unfair competition" in front of large domestic firms, perceived as having enough good connections in the government bodies, thus receiving facilitation during the operation process. It is somewhat confirmed the underlining point that large corporations have been the main target of institutional frameworks for private sector development in the country, receiving more benefits from government policies (EMNES, 2017).

In the Egyptian hospitality and tourism industry, there are a large number of large organizations and multinational chains. However, the industry is dominated by a significant number of small businesses. The majority of these independent SMEs owner-managed businesses have outlets which tend to be highly flexible to the changing customer demands and usually offer personal and localized services. Indeed, few numbers of these businesses have the potential for growth. The SME entrepreneurs have to possess multilateral skills and innovative abilities, in order to compete with large firms which usually employ entrepreneurship specialists.

The Egyptian government believes that tourism entrepreneurship flourish in an environment where the social, economic and political conditions serve as a motivational force, but such activity needs to be supported by the community and by the appropriate governmental procedures. This is due to the fact that tourism entrepreneurs are constantly

developing their businesses with minimal strategic planning and might transform the local resources into high quality tourism products. The Egyptian government also encourages the operation of SMEs due to the diversified structure of the tourism industry, which makes the supply and demand varying significantly from one geographical area to another.

### 3. Research Methodology

The research conducted is qualitative in nature that is based on primary and secondary data. First, primary data has been collected by interviewing random samples of the owners of SME entities and assisting institutions concerned with SMEs using semi-structured questionnaires. Semi-structured interviews were held to gather in-depth information on the research objectives. Interviews provide a comprehensive source of information and opportunity for interviewees to express their own thoughts and knowledge concerning the research topic. First, the sample size for the study is 240 SMEs (employing from 10 to 250 workers). This number has been considered as a percentage of the estimated number of tourism and hospitality SMEs. This sample size was chosen to ensure the validity of data analyzed. The sample includes tour operators, accommodation, food and beverage outlets and souvenir shops. The sample was distributed as follows: 60 tour operators, 60 accommodation service providers, 60 food and beverage outlets and final 60 souvenirs shops. These are evenly distributed among main five tourist destinations (Cairo, Luxor, Aswan, Hurghada and Sharm ElSheikh). Additionally, 20 questionnaires were distributed among assisting institutions. Those assisting institutions are the Social Development Fund (SDF) and MSME Enterprise Development Agency. These two were chosen because they are aiding, regulating and monitoring the



SMEs activities in Egypt. The survey is conducted from June to December 2019. In fact, the elaboration of this primary source was necessary. This is in order to get a full picture of the research and get different points of views. The research procedure includes preparation of questionnaire, pre-testing of questionnaire, survey, data decoding, data analysis, interpretation and findings.

The questions focused on the experience of the owner, demand of the tourism destination along with their services, benefits to owners, tourists and local community major constraints in running the business from different view point like financial, operational skill and technological knowledge and promotion facilities, knowledge of promotional activities etc. The questionnaire contained 24 open-ended questions. It was divided into four sections. The first section focused on basic information like: number of employees, year of establishment, ownership status, employees' status (being family member and/ or non-family member), services offered and number of tourists served. The second section is concerned with SMEs characteristics, where respondents demonstrated to what extent their enterprises represent each item on the main list. Additionally, the third section is concerned with the benefits of SMEs to owners and local community. Also, in this section, respondents identified the main internal obstacles and external challenges faced by them in their business environment. The fourth section highlighted the suggested strategies that can aid SMEs to successfully compete. The questionnaire was piloted among 25 tourism SMEs travel agencies in order to assure the validity of the questions. SPSS 17 version was used to analyze the primary data. Mainly the descriptive statistics was used to analyze the survey data.

Finally, secondary information was gathered from various sources like journals, books, websites, brochures, magazines, and newspapers etc. This research conducted a theoretical analysis of the specialized literature on the relations between tourism SMEs, entrepreneurship and economic growth and tourism destination development, all over the world and, particularly, in Egypt.

#### 4. Analysis and Discussion of Results

After analyzing the questionnaire used to investigate the hypothesis, several results have been reached:

- The analysis indicates that 85.4% of the owners are male and 14.6% are female who are involved with SME in tourism sector. The percentage of females' ownership is in tour operators and souvenir shops. While the accommodation business and food and beverage outlets are dominated by males. Additionally, females' ownership is only in three governorates (Cairo, Hurgahda, and Sharm ElShiek). While in Luxor and Aswan the male ownership is dominating. The main reason behind this is the cultural and social ties in these two governorates. Indeed, female involvement in Luxor and Aswan is not socially accepted. The research indicates that the female contribution is less than expectation.
- Additionally, the number of employees in the sample of SMEs ranges from 15 to 150. 57.2% of SME employ between 15 and 60 employees, and just 23.4% of SMEs employ from between 61 to and 100 and the remaining percentage employing from between 101 to and 150. They emphasized that employees turnover is relatively high in tourism SMEs after the 2011 revolution. This is due to the downsizing actions adapted by the owners

- to reduce fixed costs. Several SMEs have closed due to the sharp decline of tourist demand.
- As for the age categories of owners, the following results have been achieved. 44.6% from the owners are between 25 to 40 year old, 46.2% are between 41 and 55 years old and the remaining percentage is above 55 years old. This is due to the fact that tourism SMEs are seen as an attractive employment opportunity by many youth. This is beneficial to the tourism industry because youth are more able to adapt new management techniques and less resistant to change.
  - Moreover, 85.4% of the employees in tourism SMEs have a higher education or university degree and the remaining percentage holds a technical degree. This is important in the tourism industry which is constantly changing and requires high caliber in order to respond and react to rapid environmental changes.
  - Additionally, 77.7% of the tourism SMEs was established before January 2011. The remaining 22.3% was established after this period. This was explained by the respondents by the fact that the tourism industry is suffering since this date. Indeed, there is a sharp decline in tourism demand and it does not reach its normal rates. Therefore, the SMEs investors prefer to invest their capital in other industries to ensure constant flow of revenue streams.
  - Then, 51.6% of tourism SMEs are family owned business. The remaining 48.4% are non- family owned, the employees in family owned business feel the risk of downsizing because they think that family owned business feel insecure with non-family members. They also feel staff sufficiency due to the fact that all family members are running the business.
  - Additionally, 67.2% of the tourism SMEs are working formally and 32.8% are working informally. This was not a surprise, because there is an enormous size of the SME operating in the informal economy of Egypt. It is important to state that informal economic activity is widely spread in the Egyptian tourism industry. In the informal economy activities services are legal, while the production and/ or distribution process involve some illegality. They are illegal because they are not officially recorded.
  - The initial capital used to start up the SME was also utilized. The analysis declared that 86% of the initial capital comes from the personal and family sources following the remaining 24% are from financial institutions. The respondents believe that accessing loans from financial institutions is very difficult in Egypt. There are too much complicated administrative procedures.
  - In fact, 99.1% of the respondents confirmed that tourism SMEs contribution to the local economies of the tourism destinations researched. However, they stated that they should be embedded in the formal sector of the economy, and they could act as a tool for economic transformation because they offer unique tailored- made culture oriented service. They also offer job opportunities for local community either skilled or unskilled labor. Additionally, 88.13% of the respondents strongly agreed with the statement of the vital role played by the SMEs in the employment of local people. This implies that SME can play an essential role in utilizing existing resources existing in the micro destination of Egypt.
  - Regarding the statement concerned with SMEs business expansion, 69% of the respondents did not expand their

operations due to a failure to obtain sufficient loans and lack of financial resources, 31% of the respondents confirmed that they were not expanding because of the uncertainty in the tourism business environment.

- The research found that there is lack of training provision in tourism SMEs sector. Respondents were asked about the formal training on SME. The result indicated that 93% of the respondents haven't got formal training regarding their business operation, management, promotion and use of IT. In spite of the fact that training can help the owners to gain competitive advantage which is always lacked by SME owners in tourism sectors.
- It was observed that 91.7% of tourism SMEs is keen and able to absorb new knowledge and ideas for work improvements. They emphasized that they are open to knowledge transfer process. They think that knowledge transfer is essential to combat the period of instability in the Egyptian tourism industry.. Furthermore, they believe that they need better solutions to overcome the crises and more innovative methods to increase the number of tourists.
- The results showed that 87.9% of the respondents believe that there are development opportunities offered by tourism SMEs in the local areas. This is due to the fact that there are certain services that could not be offered by large or multinational companies, especially in periods of instability.
- Finally, 97.2% of the respondents believe that there are several obstacles faced by tourism SMEs in the working environment. These include lack of financial support, lack of assistance by the aiding institution provided for the tourism SMEs and time consuming administrative procedures.

Additionally, the obstacles include high rates of taxes especially in period of low demand and security and safety issues.

From data analysis it is clear that both hypotheses are accepted. Tourism SMEs and entrepreneurship has a significant impact on economic growth. Additionally, SME and entrepreneurship has a positive impact on tourism development process as a whole in Egypt.

## 5. Conclusion and Recommendations

- As previously mentioned, during the last years, the Egyptian government is exerting tremendous effort to enhance and encourage the establishment of SMEs in all the sectors of the economy. Indeed, the government initiatives were directed towards the SMEs in product industry.
- Egypt is keen on supporting the SMEs because of their effective role in reducing poverty and unemployment rates. However, the initiative is not giving much attention to the tourism SMEs, in spite of the fact that they need support to enhance the operation of the tourism micro destinations. There must be continues efforts by governments to strengthen culture of the field of SME and entrepreneurship.
- Moreover, the entrepreneur usually induces tourism business; they have a significant role of innovation and modifying the opportunities that are found in tourism destination. Though most tourism and hospitality business are SMEs in nature, they need substantial entrepreneurial activity. However, the Egyptian tourism industry lack the presence of entrepreneurial culture this hinder the tourism development process.

- There are many potential destinations waiting to be exploited and discovered. As a result of this, there must be awareness campaign concerned with the importance of SMEs and entrepreneurship in the tourism industry. These campaigns must include the ability to identify an opportunity for creation, innovation and transforming a new idea into reality.
- Then, there should be a process of entrepreneurial education. This includes motivation to acquire knowledge and experience needed through relevant exploration in order to excel. Finally, innovation and creativity in the tourism SMEs is essential. This comprises updating products and services by adding value to attract more tourists and to meet their potential market demand.
- Tourism SMEs sector Egypt is facing numerous challenges related to the regulatory environment, financial infrastructure, financial institution lending capacity, enterprise management skills, enterprise creditworthiness, liquidity of the financial intermediaries and the availability of risk sharing initiatives. They don't have access to credit services, so they build personal networks to obtain loans based on trust.
- These enterprises lack marketing channels, therefore they depends on personal relations with distributors and suppliers.
- Additionally, they have problems concerned with accessing new approaches or technologies that could make them more efficient and effective.
- From the major challenges facing the sector are legal procedures, regulatory and supervisory frameworks and administrative procedures. However, banks cite a lack of enterprise transparency, difficulties in using collateral, and uncertainty over creditor rights as primary barriers to the SMEs involvement in bank financing.
- SMEs also face nonfinancial issues. Besides the legal and regulatory framework, as well as, a highly bureaucratic system, they suffer from a lack of adequate business development services, adequate information, advanced technology and skilled labor.
- The majority of tourism SMEs produces a variety of simple and cheap services and goods, mostly for tourist markets and consumed by local community and tourists.
- They survive and grow in competition with large enterprises and imported goods because they differentiate their products by nature or acquire. Indeed, they create a niche tourism market, which is outside the competitive area of similar standardized items. In such conditions, the tourism SMEs have a better chance to survive and grow. They will probably be out of the market if they try to compete with large enterprises for similar products when the economies of scale prescribe a large scale production, and it depends on modern technologies.
- Moreover, although real income per capita in Egypt increases annually, the majority of the population in the country still earn low income, and this means that local markets for SMEs' cheap products are still large. Finally, SMEs is essential to offer more

employment opportunities and thus increasing income.

- Moreover, tourism SMEs must all be embedded in the formal sector of the economy. This could be done by encouraging the owners through tax exemption programs, easing administrative procedures and providing bank loans.
- In order to solve the informality problem, the government should attract the informal sector to join the formal sector by providing more privileges and aids to the formal firms in order to convince the owners of the informal businesses that the benefits of being a formal tourism SMEs outweighs the costs.
- The government should also aggressively penalize those who are caught running an informal business. Indeed, the SMEs launching is relatively easy, this is because the low barriers to enter the tourism industry. The tourism industry is competitive in nature.
- Additionally, cooperatives, community based tourism relationship among different parties is needed for the development of tourism industry. One of the challenges addressed by this research is the urgent need for cooperation and relationship among the entire stakeholder related to tourism industry.
- Forming effective SMEs clusters in the field of the tourism industry will be more beneficial to the tourism development process.
- There should be a set of goals formulated and clear strategies set by all the stakeholders in the industry to achieve success of SMEs operation.

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