

**TOWARDS A DEVELOPMENT STRATEGY FOR SMALL
BUSINESSES IN THE TOURISM INDUSTRY
OF THE SOUTHERN CAPE**

By

DAVID LEON RUTHERFORD

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Department of Tourism Management

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DECLARATION

I, hereby declare that the thesis for the degree at the University of Pretoria, hereby submitted by me, has not previously been submitted for a degree at this or any other university, and that it is my own work in design and execution and that all reference material contained therein has been duly acknowledged.

.....

Signature

.....

Date

ABSTRACT

TITLE OF THESIS : TOWARDS A DEVELOPMENT STRATEGY FOR
SMALL BUSINESSES IN THE TOURISM INDUSTRY
OF THE SOUTHERN CAPE

by

David Leon Rutherford

PROMOTER : Professor G.D.H. Wilson

DEPARTMENT : Tourism Management

FACULTY : Economic and Management Sciences

DEGREE : Philosophiae Doctor

This study had as its origin the questioning by the researcher of the statements made by local and national politicians that the increase in tourist numbers visiting the Southern Cape was resulting in the creation of many new business ventures and work opportunities. This result was, however, not visible.

In an attempt to find an answer to the above problem no pertinent information regarding the tourism industry, or evidence that local or regional government was actually involved in planning for the development of such an eventuality, could be found.

In 1996 the National Government identified tourism as a major industry sector which could contribute towards economic development. The industry was expected to make a substantial contribution to the alleviation of poverty and to black economic empowerment. The government issued a White Paper on the Development and Promotion of Tourism in South Africa (1996) in order to produce key policy foundations for the development of the tourism industry in South Africa.

Notwithstanding the fact that the central government had, since 1996, implemented various incentive schemes aimed at the tourism industry in general and towards small, medium and micro enterprises (SMME's) that operate in the tourism sector specifically, evidence of these incentive schemes reaching grass-root potential entrepreneurs has not been apparent. Furthermore, although purported to spread the economic benefits equitably among all members of the population, the local previously disadvantaged community did not seem to be benefiting from these policies at all.

The above perceptions have, in turn, led to a number of questions listed and noted in Chapter one, and culminated in the research problem that was identified as follows:

Can a strategy be formulated to stimulate SMME development and concurrent job creation among SMME's operating in the tourism sector of the Southern Cape and can such a strategy be depicted within a framework of a development model?

The aim of the study was, therefore, to find a practical solution to the developmental requirements of tourism-related SMME's in order to stimulate job creation.

The study was conducted in three sections: Section 1 consisted of an extensive literature survey in which it was determined that:

- Tourism-related SMME's could make a positive contribution to local economic development.
- Although operating under conditions of globalisation, SMME's still had a future if they followed international best practices.
- Certain practices were considered international best practices.
- In order for SMME's to be successful, it becomes necessary to plan for the growth.
- There is a definitive role to be played by Government in this planning exercise.
- Although much work has already been done in the field of SMME

development, very little has been done that addressed the tourism industry.

Section 2 comprised an empirical study designed to test the opinions of tourism-related SMME's operating in the Southern Cape region. Factors which were considered to be essential to stimulate the growth of job opportunities were identified and compared with the theoretical requirements established in the previous section.

Finally, Section 3 combined the findings of the previous two sections in an attempt to construct a framework depicting a model and strategy for the development of SMME's operating in the tourism sector of the Southern Cape.



SAMEVATTING

TITEL VAN PROEFSKRIF : OORWEGINGS BY 'N ONTWIKKELINGSTRATEGIE
VIR KLEINSAKE IN DIE TOERISMEBEDRYF VAN
DIE SUID-KAAP

deur

David Leon Rutherford

PROMOTOR : Professor G.D.H. Wilson

DEPARTEMENT : Toerismebestuur

FAKULTEIT : Ekonomiese en Bestuurswetenskappe

GRAAD : Philosophiae Doctor

Hierdie studie ondersoek die vraagstuk of 'n toename in toerisme-syfers in die Suid-Kaap 'n toename in besigheids- en werksgeleenthede meegebring het. Geen inligting oor die toerismebedryf was beskikbaar nie en geen bewyse is gevind dat die plaaslike of streeksregering betrokke was by die beplanning van so 'n strategie nie. Die nasionale regering het in 1996 die toerisme-bedryf geïdentifiseer as 'n bedryf wat beduidend kon bydra tot ekonomiese ontwikkeling. Daar is verwag dat die bedryf 'n merkbare bydrae kon maak tot die verligting van armoede en tot swart ekonomiese bemagtiging. Die regering het 'n Witskrif vrygestel oor die Ontwikkeling en Bevordering van Toerisme in Suid-Afrika (1996), met die doel om die grondslag te beskryf van 'n beleid aangaande die ontwikkeling van toerisme in Suid-Afrika. Ten spyte daarvan dat die regering sedert 1996 verskeie voordeel skemas in die toerisme bedryf geïmplimenteer het, en ten spyte daarvan dat heelwat skemas gerig was op klein, medium en mikro-ondernemings (KMMO's) in die toerisme-bedryf, is geen bewyse gevind dat hierdie skemas entrepreneurs op grondvlak bereik het nie. Alhoewel hierdie inisiatiewe ten doel gehad het om ekonomiese voordele meer eweredig te versprei onder alle lede van die bevolking,

blyk dit dat vooheen benadeelde gemeenskappe nie voordeel getrek het uit die beleid nie.

Die vermelde persepsies het gelei tot die formulering van 'n aantal vrae soos uiteengesit in hoofstuk een, en uiteindelik tot die formulering van die hoof navorsingsvraag:

Kan 'n strategie gevorm word wat die ontwikkeling van KMMO's stimuleer en werksgeleenthede skep in die Suid-Kaap, en kan so 'n strategie uitgebeeld word binne die raamwerk van 'n ontwikkelingsmodel?

Die doel van die studie was dus om praktiese oplossings te vind vir die ontwikkelingsuitdagings in KMMO's met die doel om werksgeleenthede te skep.

Die studie is uitgevoer in drie afdelings. Afdeling 1 bestaan uit 'n literatuurstudie waarin die volgende gevind is:

- Toerisme-verwante KMMO's kan 'n positiewe bydrae lewer tot die ontwikkeling van die plaaslike omgewing.
- Alhoewel KMMO's tans funksioneer onder globalisering-omstandighede, kan dit steeds 'n toekoms hê as dit internasionale beste praktykvoering navolg.
- Sekere aksies verteenwoordig internasionale beste praktykvoering.
- Dit is nodig om te beplan vir groei sodat KMMO's suksesvol kan wees.
- Die regering het 'n definitiewe rol in die beplanning van groei.
- Alhoewel substansiële werk reeds gedoen is ter ontwikkeling van KMMO's, is betreklik min spesifiek in die toerisme-bedryf gedoen.

Afdeling 2 bestaan uit 'n empiriese studie wat die menings toets van toerisme-verwante KMMO's in die Suid-Kaap. Faktore wat as essensieel beskou is om werksgeleenthede te stimuleer, is geïdentifiseer en vergelyk met die teoretiese vereistes soos uiteengesit in Afdeling 1.

Afdeling 3 kombineer die resultate van 1 en 2 met die doel om 'n raamwerk te skep wat die strategie weerspieël vir die ontwikkeling van KMMO's wat in die Suid-Kaap toerisme-bedryf funksioneer.

ACRONYMS

Aiest	International Association of Scientific Experts in Tourism
ASATA	Association of South African Travel Agents
ATLAS	Association for Tourism and Leisure Education
BEE	Black economic empowerment
CCC	Customs Cooperation Council
CSI	Corporate Social Investment
DBSA	Development Bank of South Africa
DEAT	Department of Environmental Affairs and Tourism
DMA	District Management Area
DMO	Destination Marketing Organisation
DTI	Department Trade and Industries
EDM	Eden District Municipality
ERDF	European Regional Development Fund
ESO	Entrepreneurship Support Organisation
EU	European Union
FEDHASA	Federated Hospitality Association of South Africa
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
ICT	Information and Communication Technologies
IDC	Industrial Development Corporation
IDP	Integrated Development Planning
IMO	International Maritime Organisation
IMF	International Monetary Fund
IQM	Integrated Quality Management
ITC	Trans-national Tourist Corporation
ITESP	Integrated Tourism Entrepreneurship Support Programme
LBSC	Local Business Service Centre
LDE	Less developed country
LED	Local Economic Development
LTO	Local Tourism Officer
NEPAD	New Partnership for South Africa
NGO	Non Government Organisation
NMMU	Nelson Mandela Metropolitan University

NTO	National Tourism Organisation
OECD	Organisation for Economic Cooperation and Development
PASOLP	Products Analysis Sequence for Outdoor Leisure Planning
PATA	Pacific Asia Travel Association
RDA	Regional Development Agency
RETOSA	Regional Tourism Organisation of Southern Africa
RTME	Rural Tourism Micro Enterprises
RTB	Regional Tourism Bureau
SADC	South African Development Community
SATSA	South African Tourist Service Association
SDF	Spatial Development Framework
SDI	Spatial Development Initiative
SME	Small to medium enterprise
SMME	Small, medium and micro enterprise
SMTE	Small, Medium Tourism Enterprise
TBCSA	Tourism Business Council of South Africa
TCC	Tourism Cluster Corporation
TCSP	Tourism Council of the South Pacific
TEP	Tourism Enterprise Programme
TSA	Tourism Satellite Accounting
T & T	Travel and Tourism
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value added Tax
WCTB	Western Cape Tourism Board
WPLC	White Paper Local Government
WTO	World Tourism Organisation
WTTC	World Travel and Tourism Council

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Introduction

Chapter 1

GENERAL ORIENTATION OF THE STUDY

1.1 BACKGROUND TO THE STUDY

1.1.1 The importance of tourism

It is generally accepted that tourism can play an important role in the regional development of developing countries through the creation of work opportunities (Bryden, 1973; De Kadt, 1976; Britton, 1989; Singh *et al.*, 1989; Burns, 1999; Ayres, 2000; Coccossis, 2001; Fayed and Fletcher, 2002; Theuns, 2002; Balaguer & Cantavella-Jorda, 2002). The majority of African governments acknowledge tourism as a source of growth (Christie & Crompton, 2001:1). They recognise the fact that, within the boundaries of an appropriate policy environment, tourism can contribute immensely to economic and social development, including poverty alleviation (Ashley *et al.*, 2000). This potential is also acknowledged by the New Partnership for Africa's Development (NEPAD), which has presented to the international community the first African development strategy which was entirely self prepared (Enoki, 2002:64). It is also accepted that, although the industry is characterised by small to medium enterprises (SME's),¹ there is a shortage of relevant data and concurrent research concerning the successful development of these tourism related SME's and their role in regional economic development (Morrison & Thomas, 2004; Rogerson, 2004). Furthermore, the high quality and personal requirements demanded by the new tourist are best served by SME's who are potentially flexible enough to satisfy such discerning visitors (Keller, 2004; Poon, 1993).

¹ The lack of standardisation on precise definitions of SME components implies that the terms SME's and SMME's are often used interchangeably. In this study, use is made of both terms (see Section 3.2.1 for definition).

The importance of SME's is best summed up by Erkkila (2004:23) when he says ... *it is clear that small and medium-sized enterprises are the life blood of the tourism and travel industry.*

1.1.2 Planning for tourism

The World Tourism Organisation (1997:3) is of the opinion that planning of tourism at all levels is essential for achieving successful tourism development and management. Places that have allowed tourism to develop without the benefit of planning often suffer from environmental and social problems. However, tourism planning has traditionally been spatial or promotional in nature, focussing on destination planning rather than on individual business (SME) planning (Gunn, 1979, 1988, 1994; Inskeep, 1991). This can be considered as demand-side planning. It is, however, also necessary to plan for the supply-side of tourism. Verheul *et al.* (2001) advocate the necessity of planning for the supply side which they define as the generation of entrepreneurs that can seize opportunities, in other words, the development of SME's. Jithendram and Baum (2001) are of the opinion that developing and facilitating local entrepreneurship seem to be a major challenge for the tourism policy makers who wish to develop tourism.

1.1.3 Benefits of tourism

Regarding the benefits of tourism to the less developed countries (LDC's) Harrison (1994: 249) presents two opposing viewpoints.

- Tourism is seen as a valuable aid to national, regional and local development, with capital investment and the transfer of skills specific to tourism leading to increased employment and general prosperity through changes in the infrastructure and through the operation of various kinds of Keynesian multipliers. According to this perspective, there is no doubt that capitalism, and capitalist-run tourism, bring development.
- On the other hand, critics of tourism, often employing a perspective derived from under-development theory, are inclined to suggest that because of the domination of international capital and the service element implicit in tourism, the industry reinforces the dependence of less

developed countries on Western capitalism. According to this view, investment is followed by “leakage” of foreign exchange, the jobs created by tourism are menial and demeaning, and the profits made from the labour of the poor in less developed countries are repatriated to the West. According to this view, capitalist-run tourism contributes to underdevelopment and not development.

Two such opposing viewpoints make it necessary to determine the role that small tourism-related businesses play in regional economic development before a specific strategy can be formed.

In a report (World Travel and Tourism Council, 1998) addressed to president Nelson Mandela and the then Deputy President, Thabo Mbeki, the World Travel and Tourism Council (WTTC) stated that travel and tourism was emerging as a leading global economic driver for the 21st Century. This report also pointed out that tourism:

- is an important contributor to employment and wealth creation in South Africa, resulting in a huge flow through effect which touches all sectors of the economy; and
- is expected to create an additional 500 000 new jobs in the travel and tourism economy between 1998 and 2010.

It is likely that this growth in work opportunities will take place via SME growth and development (Erkkila, 2004; Morrison & Thomas, 2004; OECD, 2004). However, in reality, these ambitious figures have not yet been achieved. The WTTC (2004) states in its follow-up report that while government officials and industry analysts have long been predicting that South Africa is on the verge of a tourism boom, the industry’s performance over the past several years has been disappointing and has not lived up to the optimistic and aggressive targets set in 1996.

The question is now whether, in light of the phenomenon of globalisation, small businesses can still make a contribution to regional development and, if so, what can be regarded as international best practice.

1.1.4 Small businesses in the tourism industry

One of the key challenges identified by the Department of Tourism and Environmental Affairs (DEAT), (2000), is the importance of stimulating and supporting emerging tourism entrepreneurs, and of maximising opportunities for the SMME sector.

Thomas (2004:10) is of the opinion that there are factors that distinguish the study of small firms in tourism from small firms in other sectors. According to him there are areas of common interest, probably most notably relating to job creation and economic development, and the impact of management interventions, such as training or marketing, on business performance.

In an effort to contribute to the key performance areas of the South African Government, DEAT, in its business plan for the period April 2001 to March 2002, identifies as a key focus area the creation of conditions for responsible tourism growth and development with emphasis on Small to Medium and Micro Enterprises (SMME's) and Black Economic Empowerment (BEE).

However, Pretorius and Van Vuuren (2002) are of the opinion that economic incentives do not favour SMME's and that at the core focuses of Government programmes, as promulgated through Khula, the Industrial Development Corporation (IDC) and the Department Trade and Industry (DTI), include finance, growth, expansion and competitiveness (through export) that are more relevant for existing business than for start-ups. They focus on the larger and existing ventures as their target market and very few programmes are aimed at micro and small business. Furthermore, the percentage of firms that are aware of the various programme initiatives to develop SMME's in the Johannesburg Metropolitan area was found to be below 14%, while a 2001 survey in the Tshwane Metropolitan area found that only 2.6% of firms had used some form of government support incentive (Dockel, 2004:58).

If this is so, what is the role of government in developing tourism-related small businesses? Is there a case for government intervention? If so, how can this best

be achieved? What are the requirements of planning for tourism-related SMME's? If national government's support initiatives are not reaching local entrepreneurs, is there a case for more local intervention?

This study will seek to answer these and other related questions in an attempt to elucidate the research problem posed shortly.

1.1.5 Integrated development planning

On the 1st April 1997, the Western Cape Tourism Act No 3 of 1997 was promulgated. It provided for ... *the establishment, appointment, funding, powers and functions of a representative and effective tourism structure in the Western Cape which will facilitate the promotion, support and development of tourism to and in the Western Cape, and to provide for matters incidental thereto.* Similarly, the Municipal Systems Act, 2000 (Act No 32 of 2000), provides the primary statutory context for the preparation of an Integrated Development Plan (IDP) by all spheres of government as the basis to its intervention strategies. This raises the question: To what degree do local government structures make use of Integrated Development Planning (IDP) to fulfil the development planning function?

The Garden Route Regional Tourism Bureau (RTB) is one of seven RTBs which make up the Western Cape Tourism Board (WCTB). During November 2001, the RTB amalgamated with that of the Little Karoo to form a new region called "Eden", which incorporates both the Garden Route and Little Karoo. This region relies heavily on tourism as main source of economic activity.

1.1.6 Development of tourism-related SME's

The above economic importance, new structure and prescriptive legislation all contribute to the forced coordination of planning and marketing activities on both regional and local levels and in particular related to the Southern Cape region. This raises the question as to how can the development of tourism-related SME's

be achieved? Also, what are the critical factors which must be taken into consideration when developing a framework to facilitate this development?

1.2 FORMULATION OF THE RESEARCH PROBLEM

1.2.1 Rationalisation

Recognising the fact that each tourism destination is unique, the question arises as to how local government can bridge the gap between the desired government objectives and the encouragement of tourism entrepreneurs to become involved in the small business sector of the tourism industry of the Southern Cape. Furthermore, if job creation is one of the objectives of economic development of the tourism sector, what is the relationship between job creation and increasing tourist visitor numbers? Do economic incentives from central Government filter through to local SMME's and do they encourage the creation of work opportunities?

The question, therefore, arises as to how local government can encourage local entrepreneurship. Can local government formulate a specific development strategy for SMME's operating in the tourism sector of the Southern Cape with a view to job creation?

1.2.2 Problem statement

The main problem can thus be stated as follows:

Can a strategy be formulated to stimulate SMME development and concurrent job creation among SMME's operating in the tourism sector of the Southern Cape, and can such a strategy be depicted within a framework of a development model?

1.3 THE AIM AND OBJECTIVES OF THE STUDY

The aim of the study is to find a practical solution to the developmental requirements of tourism-related SMME's in order to stimulate job creation.

In order to achieve this aim, the questions posed in the preceding paragraphs (1.2) will have to be addressed. To this effect, the objectives set out in Table 1.1 have been identified.

Table 1.1: Objectives of the study²

Objectives
1. To determine the role of small businesses in the tourism industry and their contribution to regional growth and development.
2. To determine whether, in the light of globalisation, SME's have any future and, if so, to identify international best practice.
3. To establish the importance and the requirements of tourism related development planning.
4. To analyse the role of government in the South African tourism industry with a view to identifying bottlenecks in the operational planning phase.
5. To evaluate different entrepreneurship development models pertaining to South Africa.
6. To determine the relationship between job creation in tourism related SME's and increasing tourism numbers visiting the region.
7. To determine if national government's incentives to the tourism industry are contributing to job creation in local SME's.
8. To establish what special requirements are necessary to stimulate local tourism-related SME growth.
9. To determine what local government can do to stimulate job creation and entrepreneurship in the tourism sector.
10. To construct a development framework model for small businesses in the tourism industry in the Southern Cape.

1.4 IMPORTANCE OF THE STUDY

A literature survey has revealed that as early as 1973 a study of the tourism potential of the Southern Cape was undertaken by Steyn (1973) who approached the study from a geographical perspective. Since then no studies concerning the region could be found. Similarly, very little information was found internationally which addressed the subject area. This is probably due to the fragmentation that is characteristic of the industry.

1.4.1 Contribution to the economy

The contribution of the travel and tourism industry to South Africa is expected to increase from R 31,1 billion gross domestic product (GDP) in 2002 to R 84,8 billion by the year 2012 (from 3,0% of total GDP to 3.5%). The travel and tourism

² See Table 2.1 for chapter organization.

economy is expected to increase from R 72,5 billion of GDP in 2002 to a GDP of R194,3 billion in the year 2012 (7,1% of overall GDP to 8,1% of overall GDP) (WTTC, 2004). These figures illustrate the massive flow-through effect of travel and tourism. Based on their research, the WTTC (1998; 2004) recommends, amongst other things, that the South African Government ... *coordinate provincial, national and regional marketing and planning* of the tourism product.

Rogerson (2004b:238) reports that with the growing importance of tourism in local economic development planning in many South African localities, there is an emerging interest at local government level in supporting tourism enterprises.

1.4.2 Contribution to job creation

The expected growth in the South African travel and tourism industry over the next decade and the expected concurrent growth in job creation have necessitated local government to redesign structures and implement legislation which forces coordination of planning and marketing activities on both regional and local levels (Department of Economic Affairs, Agriculture and Tourism, 1999). This expected growth and job creation pose challenges to the country in general and in particular to role players in the Southern Cape.

The study's relevance is also highlighted by a recent report in the Sunday Times Business Times (December 12, 2004) in which the South African Minister of Finance, Trevor Manuel, expressed the opinion that ... *the idea that you're going to build factories and create jobs for a growing number of people ... is not going to happen*. He is quoted further as saying ... *macroeconomic policy and stability do not create employment. All that they do is to create an environment where you've got price stability, and in which people can take long-term decisions*.

1.4.3 International importance

The importance of the subject under discussion becomes further evident when one discovers the recent international importance attached to the role played by small businesses in the tourism industry. This interest is exemplified by a study

commissioned in 2004 by the Association for Tourism and Leisure Education (ATLAS) titled “SME’s in Tourism: An International Review” as well as the theme “The Future of Small and Medium Sized Enterprises in Tourism” chosen by the International Association of Scientific Experts in Tourism (AIEST) for their 54th Congress held during September 2004.

According to the ATLAS study (2004) in all the economies represented, SME’s are seen as the backbone of the tourism industry and drivers of social and economic transition. However, despite this weight of support for tourism SME’s and their role in the economy and society, there appears to be a dearth of research and measurement that testifies to their density, composition, or contribution. Accordingly, Morrison and Thomas (2004: 10) report strong recommendations that specific research foci from a supply-side perspective should include:

- Organisation of the tourism sector and the role of SME’s in local economic development, networks, clusters and cooperation.
- Increasing knowledge relative to potential, emerging and failed entrepreneurial activity rather than a bias towards researching successful entrepreneurs.

1.4.4 Contribution to Eden District Municipality

The importance that the Eden District Municipality (EDM) attaches to the development of the local tourism industry is reflected in Table 1.2 which is an extract from the EDM Spatial Development Framework (2003).

By contributing to the current level of knowledge concerning the all-important contribution of SME’s to the tourism sector of the local economy, the study will be of benefit to South Africa in general and specifically to the Eden District Municipality of the Garden Route and Little Karoo. Ultimately it will also benefit small businesses operating in the tourism industry in the Southern Cape.

Table 1.2: Report 7 – Strategic IDP-related priority issues identified at Eden District level

No	Comments and recommendations
7.1	Research regarding economic and tourism opportunities / potential.
7.2	District development structure needed to champion economic and tourism development in region.
7.3	Clear LED and tourism development strategy/plan needed for the district.

Source: Report 7, Eden District Municipality: Spatial Development Framework, 2003:233

1.5 RESEARCH DEMARCATION

Each tourism region possesses unique characteristics regarding the role, importance, activity and composition of SME's operating within itself and as such, will require different strategies for the development of these SME's. This study will concentrate on the region known as the Southern Cape, serviced by the Eden District Municipality (EDM).

The EDM is located along the south-eastern coast of the Western Province. It stretches roughly for 350 kilometres along the Indian Ocean, from the Bloukrans River in the east, to Witsand at the Breede River Mouth in the west (see Figure 1.1).

The coastline of this vast area varies dramatically, from white sandy beaches to rocky cliffs. This region is often described as one of the most beautiful areas in South Africa, with the Garden Route as the centre of its tourism industry.

The EDM is endowed by rich natural resources and beautiful landscapes, the most prominent of which are associated with the coastal zone, the indigenous forests on the coastal plateaux and the dry succulent Karoo environment of the Klein Karoo.

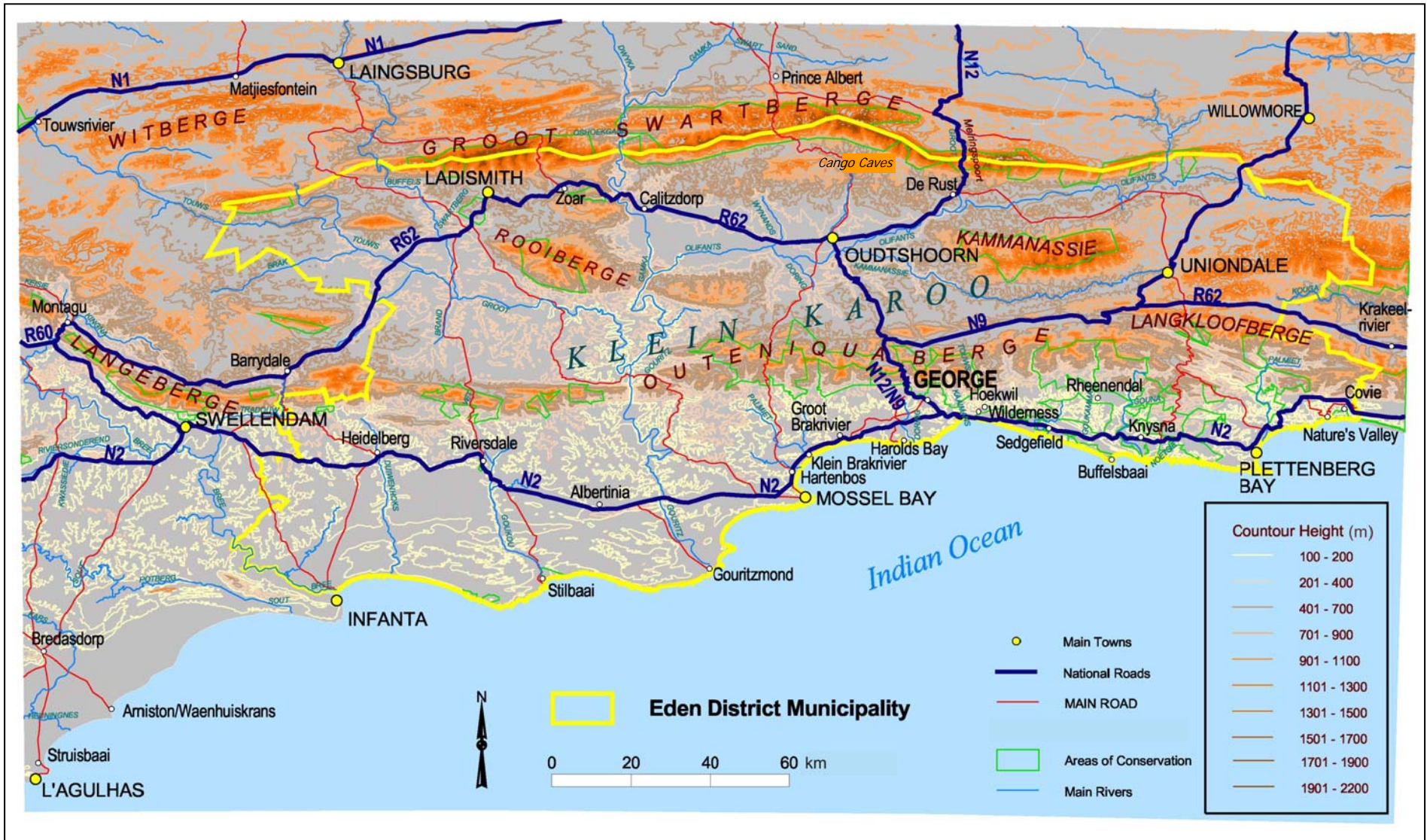


Figure 1.1: Eden District Municipality

The main access routes to the region are the national road (N2) via Swellendam in the west, and Coldstream in the Eastern Province, as well as the regional road (R62). Various mountain passes provide access from the coastal areas to the Klein Karoo region in the north, beyond the Outeniqua mountain range (Eden Spatial Development Framework, 2003).

1.6 SUMMARY

This chapter has outlined the background to the proposed study and presented the reader with the main problem. The area in which the study will be conducted was demarcated and the importance of the study field was emphasised.

Chapter two will discuss the research design and methodology adopted in order to solve the stated problem, as well as the research approach and resulting chapter outline.

Chapter 2

RESEARCH DESIGN AND METHODOLOGY

2.1 INTRODUCTION

Although recognised as an independent discipline, Tourism Management is the product of a number of source disciplines (Keyser, 2003:28). The fact that the study of tourism requires a multi-disciplinary approach (Mowforth & Munt, 2003:2) is evident when one considers the large number of source disciplines (see Figure 2.1) identified by Keyser (2003:29). The highlighted circles reflect the disciplines that will be explored in this study.³

In chapter one the main problem was stated and various sub-problems identified. Chapter two details the research design and methodology.

In order to solve the main problem the balance of the study will be conducted in three stages, depicted graphically in Figure 2.2.

Section 1 will take the form of a literature study with the purpose of identifying those factors which inform a development framework for small businesses in the tourism industry. In this section, concepts such as the role that small tourism businesses play in regional growth, their viability under conditions of globalisation, key success factors, and international best practices are investigated. Furthermore, the concept of planning by government as it pertains to the tourism industry, the role of government in the industry, and selected models of entrepreneurship are examined with a view to developing a sustainable development framework for small businesses in the tourism industry of the Southern Cape.

³ Referring to Figure 2.1, this study deals with the application of policy and planning circles in order to obtain economic (circle) benefits of tourism.

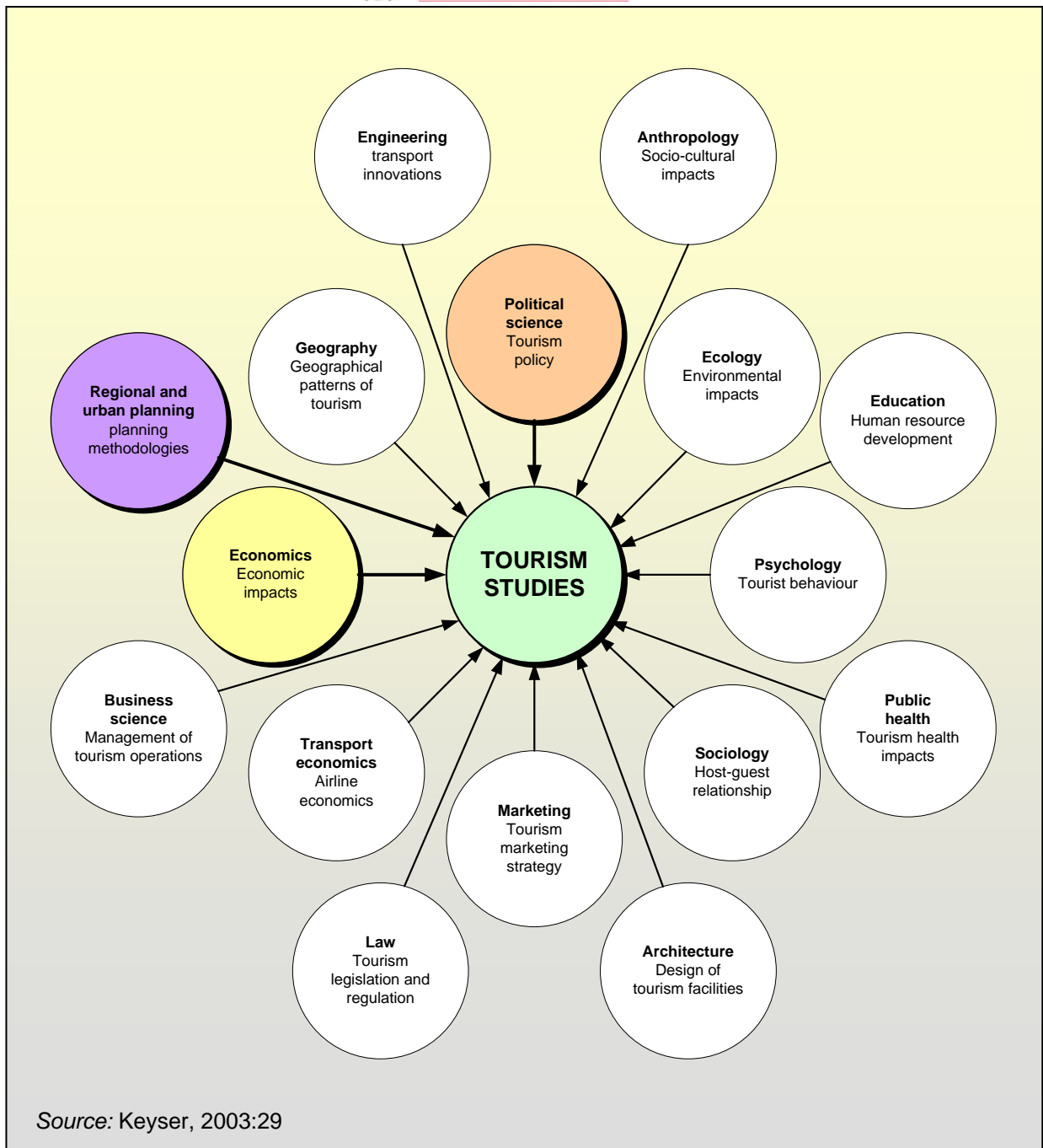


Figure 2.1: An inter-disciplinary perspective of tourism

Section 2 will take the form of a case study in which the Southern Cape is analysed in detail. As such it includes an empirical study designed to determine the thoughts and perceptions of local SME owners and entrepreneurs about how they feel their businesses could be stimulated to grow, and in so doing create much needed job opportunities.

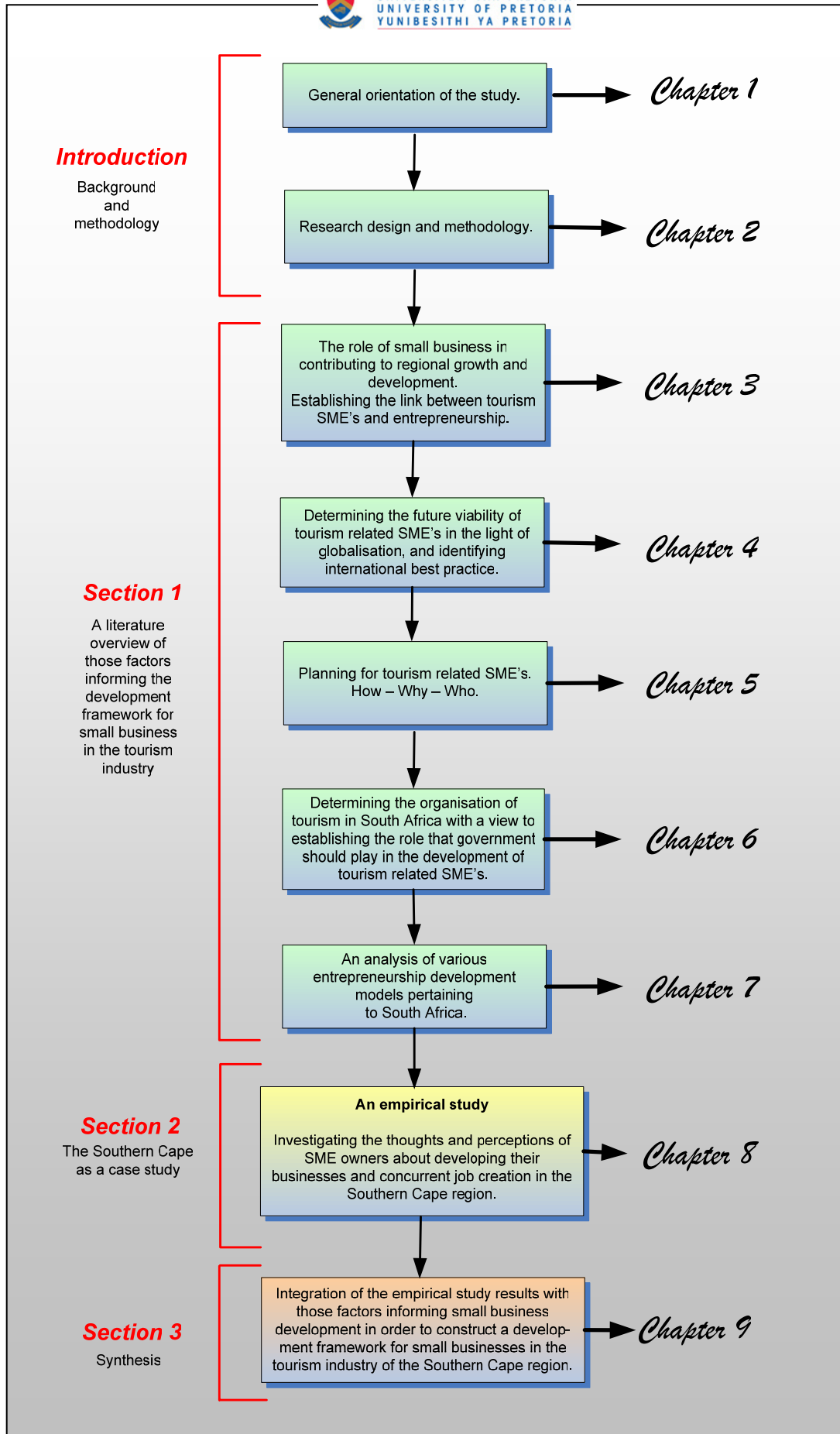


Figure 2.2: Study outline

Section 3 will integrate the findings from Sections 1 and 2 in order to arrive at a development framework for small businesses in the tourism industry of the Southern Cape.

The purpose and scope of this study will be to find a practical solution to the developmental requirements of tourism-related SMME's operating in the Southern Cape with a view to stimulating job creation.

2.1.1 Organisation of chapters

The study's objectives and chapter organisation are depicted in Table 2.1. Table 2.1 links the study's objectives to individual chapters, and should be read in conjunction with Figure 2.2 which links individual chapters to the different sections of the study.

Table 2.1: Organisation of chapters

Objectives	Related chapters
1. To determine the role of small businesses in the tourism industry and their contribution to regional growth and development.	Chapter 3
2. To determine whether, in the light of globalisation, SME's have any future and, if so, to identify international best practice.	Chapter 4
3. To establish the importance, and the requirements, of tourism related development planning.	Chapter 5
4. To analyse the role of government in the South African tourism industry with a view to identifying bottlenecks in the operational planning phase.	Chapter 6
5. To evaluate different entrepreneurship development models pertaining to South Africa.	Chapter 7
6. To determine the relationship between job creation in tourism related SME's and increasing tourism numbers visiting the region.	Chapter 8
7. To determine if national government's incentives to the tourism industry are contributing to job creation in local SME's.	Chapter 8
8. To establish what special requirements are necessary to stimulate local tourism related SME growth.	Chapter 8
9. To determine what local government can do to stimulate job creation and entrepreneurship in the tourism sector.	Chapter 8
10. To construct a development framework model for small businesses in the tourism industry in the Southern Cape.	Chapter 9

2.2 THE RESEARCH PURPOSE AND APPROACH

2.2.1 Aim

The aim of this study is to find a practical solution to the developmental requirements of tourism related SME's in the Southern Cape in order to stimulate job creation.

Babbie (1983:75) identifies the three most common purposes of research as being explorative, descriptive or explanatory in nature. In order to answer the research questions posed in the study, the study will be descriptive in nature.

Utilising the classification of Cooper and Schindler (2003:147), the degree of research question crystallization classifies the study as being a formal study. The method of data collection will be by means of interrogation, while the power of the researcher to produce effects in the variables is *ex post facto*.⁴

The study will be carried out once and represents a snap-shot of a point in time. As such, according to Cooper and Schindler (2003:149), the time dimension under consideration is cross-sectional. The topic scope is classified as a statistical study since the study attempts to capture a population's characteristics by making inferences from a sample's characteristics. The research takes place under actual, as opposed to staged or manipulated, environmental conditions and can, therefore be regarded as being field testing in nature.

2.2.2 Approach

According to Welman and Kruger (1999:2), research is a systematic enquiry that is reported in a form that allows the research methods and outcomes to be accessible to others. There are two types of research: pure and applied research. Pure research is that which has no obvious practical implications beyond contributing to a particular area of intellectual enquiry. Applied research, on the

⁴ Applied retroactively. Applying to events that have already occurred as well as to subsequent events.

other hand, is problem-focused and is directed toward solving some particular intellectual question that has practical implications for a client outside the academic world.

The aim of this study (see Sections 1.3 and 2.2.1) attempts to solve a problem, and its focus is thus applied. A research problem refers to some difficulty that the researcher experiences in the context of either a theoretical or practical situation. In the case of this study, the problem experienced by the researcher is:

Can a strategy be formulated to stimulate SMME development and concurrent job creation among SMME's operating in the tourism sector of the Southern Cape and can such a strategy be depicted within a framework of a development model.

Addressing the above problem, the objectives of the empirical study were:

- To determine the relationship between job creation in tourism-related SME's and the increasing of tourism numbers visiting the region.
- To determine if the incentives of national government to the tourism industry are contributing to job creation in SMME's.
- To determine those factors deemed by small businesses as critical to sustainable job creation in the tourism industry.
- To determine what local government can do to stimulate job creation and entrepreneurship in the tourism sector.

When considering the approach that may be used in a research project, the researcher has three options:

- a quantitative methodology;
- a qualitative methodology; and
- a mixed method approach.

The choice centres on the nature of the research topic, the setting, the possible limitations and the underlying theoretical paradigm that informs the research project (Jennings, 2001).

2.2.3 Quantitative approach

This study will follow the quantitative approach.

A quantitative research approach is grounded in the positivist social science paradigm, which primarily reflects the scientific method of the natural sciences. Such a paradigm adopts a deductive approach to the research process. As such, it commences with theories or hypotheses about a particular tourism phenomenon, gathers data from the real-world setting and then analyses the data to support or reject hypotheses (Jennings, 2001:20).

The qualitative approach's main aims are described by De Vos, Strydom, Fouche, and Delport (2005:74) as being to ...*objectively measure the social world, to test hypotheses and to predict and control human behaviour*. According to De Vos et al., (2005:74), a quantitative study may therefore be defined as ...*an enquiry into a social or human problem, based on testing a theory composed of variables, measured with numbers and analysed with statistical procedures in order to determine whether the predictive generalisations of the theory hold true*.

Babbie (1983:537) provides an alternative definition. He defines quantitative analysis as the numerical representation and manipulation of observations for the purpose of describing and explaining the phenomena that those observations reflect.

The aim of this study, as set out in Section 1.3 and Section 2.2.1, will not involve the formulation of propositions, which according to Cooper and Schindler (2003:55), could also be called hypotheses. Instead this study makes use of a model or framework, which is described by Cooper and Schindler (2003:55), as ...*a representation of a system that is constructed to study some aspect of that system or the system as a whole*. Cooper and Schindler (2003:56) go on to state that models differ from theories in that models are representations of some aspect of a system, or of the system as a whole. Models are used for description and simulation while a theory's role is that of representation.

2.3 RESEARCH METHODOLOGY

2.3.1 Research design

The empirical study will be conducted by means of:

- a secondary data search to establish the number and growth rate of visitors to the Southern Cape; and
- a telephonic survey with the use of a questionnaire developed from the literature study.

2.3.1.1 Secondary data search

According to Mouton (2001:71) secondary information sources refer to written sources (including the Internet) which discuss, comment, debate and interpret primary sources of information.

In order to achieve the first research objective – to determine the relationship between job creation in tourism-related SME's and increasing tourism numbers visiting the region – a secondary data search was conducted to determine the number of tourists visiting the Eden District on a yearly basis for the last ten years. The ten year period since 1994 was chosen as it reflected a period of intense interest in visiting South Africa and the Southern Cape area by both international and domestic tourists.

The number of visitors involved in domestic and international tourism was obtained from reports published by Statistics South Africa, Grant Thornton Kessel Feinstein, SA Tourism, Wesgrow, and the Eden Spatial Development Framework. Examples of these reports are Western Cape Trends card, Tourism Trends in the Western Cape and Garden Route, Annual Tourism Reports, and Wesgrow Fact Sheet (2005).

Although figures pertaining to international tourist numbers for South Africa as a whole were readily available, it was not as easy to obtain data applicable to the Eden district on its own. This was also the case with domestic tourism figures

since, over the period under consideration, only three national surveys of domestic tourism were undertaken, with little reference to the Eden district. Similarly, finding figures applicable to the Western Cape and Eden District proved to be difficult. Certain figures had to be mathematically estimated in order to arrive at realistic growth rates.

2.3.1.2 Survey research – structured telephone interview

2.3.1.2.1 Background and design

According to Cooper and Schindler (2003:319) the communication approach involves surveying people and recording their responses for analysis. The great strength of the survey as a primary data-collecting approach is its versatility. This communication approach has its shortcomings, however. Its major weakness is that the quality and quantity of information secured depend heavily on the ability and willingness of participants to co-operate.

Babbie (1983:209) concurs that survey research is probably the best method available to the social scientist interested in collecting original data for describing a population too large to observe.

Cooper and Schindler (2003:323) identify the following survey methods which can be used by researchers:

- *Personal interviews* – which is a form of direct communication in which an interviewer asks respondents questions in a face-to-face situation. According to Zikmund (2003:199), personal interviews allow feedback, increase the chance that the questionnaire will be answered and increases participation. However, anonymity is not guaranteed, different interviewer techniques may be a source of interviewer bias and the method can be more costly than mail surveys.
- *Telephone interviews* – which is method of contacting respondents by telephone to gather responses to survey questions. Zikmund (2003:207) regards the main advantages of this method as speed of implementation, lower cost relative to other methods and the increased cooperation in

completing the questionnaire. The main disadvantages are the absence of face-to-face contact and the limited duration of the interview associated with this method.

- *Mail* – is described as a self administered questionnaire sent through the mail to respondents. Zikmund (2003:213) regards geographic flexibility as this methods main advantage, and the fact that the time taken to respond is taken out of the interviewer's hands, as this method's main disadvantage.
- *Computer surveys* – a survey conducted by means of computers. According to Zikmund (2003:215), computer surveys save time, respondents feel anonymous and use can be made of visual stimuli. On the other hand, the method requires a high degree of technical skills on the part of the researcher, it is costly and the technology is not yet perfect.
- *A combination* of these methods.

Because of the vast distances involved in the study, it was decided to discard the personal interview option. Similarly, since research into the tourism industry is characterised by very low response rates (Pechlaner, Raich, Zehrer and Peters, 2002 cited in Pechlaner *et al.*, 2004; Pechlaner *et al.*, 2004; Thio *et al.*, 2004) the option of a self-administered mail survey was also discarded.

Cooper and Schindler (2003:336) report that, when compared to either personal interviews or mail surveys, the use of telephones brings a faster completion of a study. When compared to personal interviewing, it is also likely that interview bias, especially bias caused by the physical appearance, body language, and actions of the interviewer, is reduced by using telephones. Babbie (1985:223) concurs, and is of the opinion that when a research worker either delivers the questionnaire, picks it up, or both, the completion rate seems higher than for straightforward mail surveys. Additional experimentation with this method is likely to point to other techniques for improving completion rates while reducing costs.

In order to achieve a high response at the lowest cost, this study has made use of a combination of a telephone interview and a mail survey

When an interviewer puts the questions contained in a structured questionnaire to the respondent, whether in a personal interview or over the telephone, such a previously compiled questionnaire is known as an interview schedule (Welman & Kruger, 1999:165). Welman and Kruger (1999:166) differentiate between “structured”, “unstructured” and “semi-structured” interviews. In a structured interview, the interviewer puts forward a collection of questions from a previously compiled questionnaire, known as an interview schedule.

In order to overcome the disadvantage of low response rates associated with the mail survey method and maximise the advantages associated with the interview method, the research method used in this study is therefore termed a structured telephonic interview method.

Welman and Kruger (1999:172) provide the following techniques and hints for the development and construction of questionnaires and (structured) interview schedules:

- choose judiciously between open-ended and closed-ended questions;
- take the respondent's literacy level into consideration;
- be careful not to offend;
- strive for conciseness (briefness) yet be unambiguous (having one meaning only);
- maintain neutrality;
- use a justified sequence; and
- be sure the question is appreciable to all respondents.

All of the above principles and hints were followed in designing the questionnaire.

2.3.1.2.2 Pilot testing

According to Cooper and Schindler (2003:286) a pilot test is conducted to detect weakness in design and implementation. It should draw subjects from the target population and simulate the procedures and protocols that have been designated for data collection. The draft questionnaire was tested in a pilot study carried out

by the researcher who interviewed two respondents from each of the identified strata (ten respondents in Table 2.3). Particular attention was paid to the following aspects:

- the time taken to complete the questionnaire was measured; and
- the level of comprehension regarding the wording of the questions.

2.3.2 The layout and content of the questionnaire / interview schedule

An example of the questionnaire is attached as Annexure 2. The questions contained within the questionnaire were grouped into the following sections:

Section A required general information about the respondent, the type of business ownership, the size of the business, how long the respondent had been in business and how the business was originally started. Since this section required both mutually exclusive and some single choices from multiple-option questions, a combination of simple category scale and multiple choice single-response scales was used.

Section B addressed the issue of the number of jobs created. The responses sought were mutually exclusive, judgmental and quantifiable in nature, so use was made of a combination of simple category and fixed-sum scales for measurement purposes.

Section C tested the awareness of available government incentives to the tourism industry as well as the extent to which use had been made of them. Responses sought were mutually exclusive and single choice from multiple options. To achieve this, a combination of single category scales and multiple choice single-response measurement scales was used.

Section D represented the opinion of respondents as to what they considered to be important factors contributing to the future growth of their business and what role local government should play in encouraging this growth. Responses sought required mutually exclusive answers, the selection of one or more alternatives from multiple options, or the expression of favourable or unfavourable attitudes

towards the object of interest. As a result, measurement scales used were a combination of single category scales, multiple choice multiple-response scales and a five-point Likert scale.

The questionnaire was posted to the randomly selected sample (See Section 2.3.3.4) and was accompanied by an introductory letter explaining the purpose of the research and informing the respondent that he/she would be contacted telephonically within the following two weeks. The inclusion of the questionnaire in the correspondence, it was hoped, would allow the respondent some time before the interview to ponder his/her answers to some of the questions and to access information that might be required (see Annexures 1 and 2).

2.3.3 Population and sample size

2.3.3.1 Population

According to Welman and Kruger (1999:47) the population is the study object which may be individuals, groups, organisations, human products and events, or the conditions to which they are exposed. It encompasses the total collection of all units of analysis about which the researcher wishes to draw conclusions. The target population is the population to which the researcher ideally would like to generalise his results (Welman & Kruger, 1999:122).

The Regional Services Levy Act 1985 (No. 109 of 1985) requires that all business establishments in the area are registered with the Regional Services Council (District Municipality). This data-base will serve as the sample frame. An analysis of all businesses registered with the District Municipality will be made in order to identify those enterprises directly related to the tourism industry. Table 2.2 gives the resulting list of businesses by category and subcategory as registered with the District Municipality as in September 2004.

2.3.3.2 Limitations

Many of the “micro” enterprises active in the tourism industry can be categorised as belonging to the so-called informal sector. As a result, they are not registered

as businesses with the District Municipality, nor are they registered for VAT with the South African Revenue Services. They also do not always operate from a fixed address. This makes it extremely difficult to contact them. This study, therefore, only includes micro enterprises which form part of the formal sector.

A further limitation of this study is that only SME's that create direct employment from tourism were included. The inclusion of enterprises that create indirect and induced employment would have made the study too big to have been economically viable (see Section 3.3.5).

2.3.3.3 Sampling

Sampling is a procedure that uses a small number of units of a given population as a basis for drawing conclusions about the whole population. The sample frame is a complete list in which each unit of analysis is listed only once (Welman & Kruger, 1999:49). The idea of sampling as described by Cooper and Schindler (2003:179) is that, by selecting some of the elements in a population, conclusions may be drawn about the entire population. A population element is the subject on which the measurement has been taken.

In the case of this study, the population element is the individual business operating in the tourism industry within the Southern Cape. Cooper and Schindler (2003:179) go on to identify the reasons for sampling as lower cost, greater accuracy of results, greater speed of data collection, and availability of population elements.

The selected sample type is that of Probability sampling, which according to Cooper and Schindler (2003:183) is based on the concept of random selection and can be defined as a controlled procedure that assures that each population element is given a known non-zero chance of selection. De Vos *et al.*, (2005:196) concur with this definition, when they describe random sampling as ... *that method of drawing a portion – or a sample – of a population so that each member of the population has an equal chance of being selected.*

Table 2.2: Identified population by category⁵

Category and Sub-category	
02 Accommodation / holiday resort	02.01 Accommodation 02.02 Guesthouse 02.03 Holiday resort 02.04 Timeshare 02.05 Nature reserve
10 Recreation area / drive-inn	10.01 Recreation area 10.02 Drive-inn
14 Restaurant / coffee shop	14.01 Restaurant 14.02 Coffee shop
17 Home industry / catering	17.01 Home industry 17.02 Catering
18 Crocodile farm	18.03 Crocodile farm
19 Music shop / video / entertainment	19.03 Entertainment disco 19.04 Entertainment fun-carts 19.05 Casino 19.06 Boat rides
22 Transport / services / riding schools	22.01 Passenger services 22.02 Car hire
23 Sawmill / forestry	23.02 Nature conservation
42 Hotel / motel	42.01 Hotel 42.02 Motel 42.03 Pub 42.04 Tavern
69 Caravan / maintenance / camping equipment	69.01 Caravans 69.03 Camping equipment
76 Boats	76.01 Boat sales 76.02 Boat building
83 Museums	83.01 Museums
85 Travel agencies	85.01 Travel agencies 85.02 Tour operators
90 Airports	90.01 Airports 90.03 Airplane hire

⁵ The category and subcategory numbers used in Table 2.2 represent the coding system used by the Eden District Municipality.

2.3.3.4 Stratified random sampling

De Vos *et al.*, (2005:200) state that stratified random sampling is suitable for heterogeneous populations because the inclusion of small subgroups percentage-wise can be assured.

Since the population used can be segregated into mutually exclusive subpopulations, or strata, it is possible to constrain the sample used to include elements from each of the segments by the process of stratified random sampling. Stratification is usually more efficient statistically than simple random sampling and at worst it is equal to it (Cooper & Schindler, 2003:193).

Since the population is composed of clearly recognisable, non-overlapping subpopulations, the variation within any particular stratum will probably be smaller than the variation among the respective strata (Welman & Kruger 1999:55). As such it would be unwise to ignore the differences between such clearly discernable populations, and they should be included when a random sample is drawn.

Two things are necessary to draw a stratified random sample: Firstly, the various strata should be identified according to one or more variables. Secondly, a random sample should be drawn from each separate stratum (Welman & Kruger, 1999; Finn *et al.*, 2000). In this way a representative sample can be obtained from a population with clearly distinguishable strata with a greater degree of certainty than is possible with simple random sampling.

In this study use was made of stratified sampling and, as a cost-saving and time-saving mechanism, only those strata greater than 100 units were considered as the target population. Table 2.3 depicts this target population, the stratified sample and the expected precision (accuracy) at a 90% confidence level.

Table 2.4 reflects those strata that were left out of the study because of their low numbers in the various strata.

Table 2.3: Target population, sampling and approximate precision

Population category	Population size	Sample size	Precision (90% confidence) ⁶
02 Accom. / Resort Accommodation Guesthouse Holiday resort Timeshare Nature reserve	737	130	6.55%
14 Restaurant Restaurant Coffee shop	849	150	6.10%
17 Home / Catering Home industry Catering	149	30	13.48%
22 Transport services Passenger service Car hire	323	60	9.60%
42 Hotel / Motel Hotel Motel Pub Tavern	208	40	11.72%
TOTAL	2266	410	3.68%

2.3.3.5 Precision

The precision reported here is calculated under simple random sampling, and for a sample proportion. Although the population proportion is required in this calculation, a value of 0.5 is usually used when there is no knowledge of the population value. This procedure is regarded as “safe” since it gives an upper limit of the precision and the true precision will likely be smaller than those values tabulated here (Keller & Warrack, 2003).

The interpretation of these values is as follows:

Take the strata “Restaurants” as an example. Obtaining a sample proportion of, say 0.4, the precision of 6.1% means that one can state with 90% confidence that the population proportion will be between 0.4 ± 0.0061 i.e., between 0.339 and 0.461.

⁶ The precision calculation is explained in Section 2.3.3.5.

Table 2.4: Strata left out of the study

Population category and sub-category	Number per Sub-category	Total number Per category
11 Recreation area / drive-inn 11.01 Recreation area 11.02 Drive inn	14 0	14
20 Crocodile farm 18.03 Crocodile farm	2	2
21 Music shop / video / entertainment 21.03 Entertainment disco 21.04 Entertainment fun-carts 21.05 Casino 21.06 Boat rides	16 1 1 4	22
24 Sawmill / forestry 23.02 Nature conservation	3	3
70 Caravan / maintenance / camping equipment 70.01 Caravans 69.03 Camping equipment	3 4	7
77 Boats 77.01 Boat sales 77.02 Boat building	4 3	7
84 Museums 83.01 Museums	5	5
85 Travel agencies 85.01 Travel agencies 85.02 Tour operators	62 5	67
91 Airports 91.01 Airport 90.03 Airplane hire	2 1	3
TOTALS	130	130

2.3.4 Sample backup

Acknowledging the traditional low response rates associated with research in the field of tourism (Pechlaner *et al.*, 2002, cited in Pechlaner *et al.*, 2004; Tluo *et al.*, 2004), it was decided to make provision for a back-up sample equal to 20% of the original sample extracted.⁷

2.3.5 Training of interviewers

Advice was obtained from Prof André Horn of the University of Pretoria who had had experience in a similar research process. On his advice an information session with the research operators was held prior to the start of the interview process. During this session interviewers were instructed as to the main objective

⁷ This procedure was decided on after the researcher had consulted with more experienced researchers and, in particular, on the advice of Prof A Horn of the University of Pretoria.

of the study, the objectives of the empirical research process, the questionnaire content and interpretation and the steps in the interview process.

2.3.6 Execution of the survey

A questionnaire together with a covering letter was posted to the 420 respondents of the identified sample during the last week of February 2005 requesting them to study the questionnaire prior to receiving a phone-call from one of the research operators who, telephonically, completed the questionnaire together with the respondent. A team of five ladies was used as research operators who, within a period of the first two weeks of March 2005, made contact with all of the respondents in order to complete the questionnaire.

2.3.7 Information capture and analysis

Once the information had been collected via the structured telephone interview it was captured by an independent editor on an electronic spreadsheet, Excel, in order to ensure that the information was:

- accurate;
- consistent with intent of the question and other information in the survey;
- uniformly entered;
- complete; and
- arranged to simplify coding and tabulation.

(Cooper & Schindler, 2003:45)

Once the data had been captured, it was processed by the Statistical Support Unit of the Department of Mathematical Science at the Nelson Mandela Metropolitan University (NMMU), using the software package Statistica.

2.4 RELIABILITY AND VALIDITY OF DATA

Within the hypothetico-paradigm, reliability is a matter of whether a particular technique, applied repeatedly to the same object, would yield the same result each

time, whereas validity refers to the extent to which an empirical measure adequately reflects the real meaning of the concept under consideration (Babbie, 1990 as cited in Jennings, 2001:149). Babbie goes on to identify the following types of validity:

- face validity – which refers to the fact that the concept being measured is being done so appropriately;
- criterion-related validity – which is associated with establishing measures that will be able to predict future outcomes in relation to specific criteria;
- content validity – which refers to the use of measures that incorporate all of the meanings associated with a specific concept; and
- construct validity – which is associated with a measure encapsulating indicators that are theoretically sound.

Finn, Elliott-White and Walton (2000:28) also differentiate between internal and external validity. Internal validity refers to whether the cause, as contained in the hypothesis, produces the given effect in the research, while external validity refers to the extent to which the results of the research can be generalised (also referred to as the representativeness of the research results). In this respect Finn *et al.* (2000:28) further differentiate between population validity and ecological validity. Population validity is about whether the research can be generalised to other groups of people outside the sample researched, while ecological validity is about generalisation to other settings.

To ensure that the data acquired in the study were valid, the following steps were taken:

- the purpose of the study was clearly explained in a letter, in both English and Afrikaans⁸, to respondents prior to the telephonic interview;
- a copy of the questionnaire was sent together with the letter to allow respondents a time to ponder answers to the questions before being telephonically interviewed;

⁸ Since the researcher is bilingual and the Southern Cape region is predominantly English or Afrikaans speaking, it was decided to conduct this study in these two languages only. None of the other official languages were used.

- discussions were held with senior researchers who had had previous experience in similar studies; and
- sampling was carried out using probability methods ensuring external population validity.

Within the holistic-inductive paradigm perfect validity entails perfect reliability but not the converse; perfect validity is theoretically impossible (Jennings, 2001:150). Leedy (1997:35) defines reliability as the consistency with which the measuring instrument performs. This was achieved in the study by:

- performing a comprehensive literature study in the field of interest;
- having the questionnaire critically reviewed by the researcher's promoter;
- pre-testing the questionnaire and paying particular attention to the level of comprehension regarding the wording of the questions. In this respect, after pre-testing, the questionnaire was redesigned to be bilingual; and
- ensuring a high standard of competence by research operators through an in-depth pre-training seminar.

2.5 SUMMARY

This chapter discussed the methodology followed in the study and detailed the organisation and outline of the chapters. The research approach and methodology were elucidated together with the planning of the empirical study, covering aspects of secondary data research, the structured telephonic survey, questionnaire design and layout, population and sampling size, data analysis and limitations. Furthermore, the distribution of the questionnaire and the reliability and validity of data were addressed.

Chapter 3 represents the start of Section 1 (see Figure 2.2) the purpose of which is to identify factors that would influence the development framework for small businesses in the tourism industry. Chapter 3 will address the issue of the role played by small businesses in the tourism industry.

Section 1

Chapter 3

THE ROLE OF SMALL BUSINESS IN THE TOURISM INDUSTRY

3.1 INTRODUCTION

Gunn (1994) is of the opinion that tourism authorities can plan for areas, either to obtain the economic benefits from tourism, or to keep these areas from being inundated by visitors. As a result many local authorities, in the face of falling employment in agriculture and industry and a failure to attract “high-tech” business ventures, have turned to tourism as a last resort (Hudson and Townsend, 1995:64).

Before a specific development strategy can be developed, it is necessary to first gain an understanding of the role that small tourism-related businesses play in regional development. The objective of this chapter is, therefore, to determine the role of small businesses in the tourism industry and their contribution to regional growth and development as exemplified through the all-important concept of job creation (Objective No. 1).

The importance of this chapter lies in the fact that it justifies the necessity of developing SME’s that operate in the tourism sector in order to achieve economic development.

The lessons learnt in this chapter will form the basis of the strategic direction to be followed, the overriding policy and socio-cultural factors which must be taken into consideration, and those factors which should be avoided in order to ensure success in developing a strategy for the development of tourism related SME’s in Chapter nine.

The discussion is introduced by defining the terms “small, medium and micro enterprises”, “tourism industry”, and “Third World or Developing country”. This is followed by an analysis of the relationship between small business, development, tourism and entrepreneurship. The opportunities for SME’s in developing countries in general are identified before looking specifically at small to medium tourism enterprises (SMTE’s) in South Africa.

3.2 DEFINITIONS OF KEY TERMS

3.2.1 Small medium and micro enterprises

Reporting their findings concerning an international overview of SME’s in tourism, Morrison and Thomas (2004:10) express the opinion that the lack of comparable knowledge about tourism related SME’s can be attributed to, amongst other factors,

- difficulties in calculation due to definitional and conceptual challenges; and
- different countries and federations employing different measures of SME subcategories, usually based on number of employees.

This lack of comparable knowledge poses difficulties in the execution of cross-country comparative analysis and alerts researchers for the need to be precise in terms of definition, measurement and units of analysis employed.

According to Morrison (1996, cited in Page, Forer & Lawton, 1999), ... *a small 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 ... it is perceived as small in terms of physical facilities, production / service capacity, market share and number of employees.*

Cressy and Cowling (1996, cited in Page *et al.*, 1999) describe small business as having ... *no power to control prices of the product it buys and sells and the credit it gives and receives ... the business is managed by its owners who also control*

the business. A small business will most likely be a sole trader or a partnership but may also be a limited company. It will typically have fewer than twenty employees, but it may have as few as one (the owner manager) or as many as 500.

The South African concept of “small business” is defined by the National Small Business Act, 1996 (Act No 102 of 1996), and makes provision for the fact that South Africa is still in the process of development by including the concept of “micro” enterprises so prevalent in underdeveloped economies. The said Act refers to Small, Medium and Micro Enterprises (SMME’s) and definitions vary according to the Sector or Subsector under discussion (for example, catering, accommodation and other trade, transport, storage and communications) as specified by the Standard Industrial Classification. According to the Act, small businesses are categorized as:

- Medium (total full-time employees less than 200, total annual turnover less than R 50 million, and total gross asset value of less than R 18 million),
- Small (total full-time employees less than 50, total annual turnover less than R 25 million, and total gross asset value of less than R 4,5 million), or
- Micro (total full-time employees less than 5, total annual turnover less than R 0,15 million, and total gross asset value of less than R 0,1 million).

Furthermore, in terms of qualitative criteria which relate to the ownership structure of the business, SME’s must:

- be a separate and distinct business entity;
- not be part of a group of companies;
- include any subsidiaries and branches when measuring the size;
- be managed by its owners; and
- be a natural person, sole proprietorship, partnership or a legal person such as a close corporation or company.

(Nieuwenhuizen, 2003:10)

For the purposes of this study, the definition in the said National Small Business Act is accepted.

3.2.2 Tourism industry

The term “tourism industry” is a convenient way of referring to the large and fragmented collection of companies producing commodities that support the activities of people who are temporarily away from their usual environment. These commodities include transportation, accommodation, food services, attractions and travel trade services (Smith 1998:32). Bennett (2000:7) acknowledges the early work of Medlik and Middleton in defining the tourism product as... *an amalgam of many components, the attractions of the destination, the facilities at the destination and the accessibility of it.*

The above distinction is sometimes blurred relative to the assignment of SME's as directly operating in tourism versus those that are connected to tourism but do not have it as their primary activity, and since this study is concerned with SME's operating in the tourism industry, it becomes necessary to precisely define the concept. According to Bennett (2000:43), the delivery of the composite elements of this product to tourists requires the input of a number of producers and intermediaries. He separates the tourism industry into:

- producers, such as the suppliers of tourist attractions (natural, man-made, and socio-cultural), accommodation (serviced and self-catering), transport (air, sea, road and rail), and support services (private sector and public sector); and
- intermediaries, consisting of tour operators and travel agents.

In the absence of a Tourism Satellite Accounting (TSA) system, as is the case in South Africa, Smith (1998:39) advocates the use of the “tourism ratio” as a means of measuring the size of the tourism industry. The “tourism ratio” is the percentage of total receipts in an industry that are attributable to tourism; in other words, it is the ratio between total tourism demand and supply. He is of the opinion that, for an industry to be considered a tourism industry, it should have a tourism ratio greater than 15 percent.

As a point of departure to the development of a strategy of tourism related SME's, one would expect that it would become necessary to distinguish between small to medium tourism enterprises (SMTE's) and general small to medium enterprises (SME's). In this study, use is made of both the above definitions of Bennet and Smith.

Morrison and Thomas (2004) describe the tourism industry as comprising a large number of small firms which are fragmented and, as a result, are widely dispersed. This is supported by Erkkila (2004). Ease of entry into and exit from the industry is also acknowledged as is seasonality of the industry (Bennet, 2000; Erkkila, 2004; Morrison & Thomas, 2004).

The description that Bennet (2000) gives of a tourism product has wide implications when considered together with the large number of small firms comprising the industry. Under these conditions it becomes very difficult for small firms to compete against larger tourism enterprises in the development of new tourism products, which leave them with only the strategy of adding value to existing offerings as a means to differentiating their product.

3.2.3 Third world / developing country

According to Harrison (2001), many authors accept the fact that tourism can be considered a tool for economic development which is more heavily relied upon by less developed countries, than by developed countries, as a means to achieve economic growth. Richter (2001:48) supports this viewpoint by stating that *...the policy challenges associated with tourism development are common to most nations, but they are intensified in those that are developing*. As a result of this distinction it becomes necessary to determine the development status of South Africa.

What constitutes a Third World or developing country? A criteria commonly used is to regard as "less developed" or "developing" (Third World) all countries listed by the World Bank as not falling into the "high income" category (World Bank, 1997, cited in Harrison, 2001:9). Another view is that expounded by the United Nations

Development Programme (UNDP) which focuses on whether a country has a medium or low ranking in the Development Index (HDI) (UNDP, 1999, cited in Harrison, 2001:9).

According to both these criteria, South Africa can be regarded as a “Third World” or a “Developing” country.

3.3 TOURISM, SMALL BUSINESS AND DEVELOPMENT

Erkkila (2004:24) states that, according to economic theory, the firm, in this case the SME, make up the supply side of the product market and the demand side of the factor (of production) market. Economic theory of the firm is often presented with two components, theory of production (inputs / outputs) and the firm itself. Examples of production theory issues include:

- structure of production, including markets, distribution channels, etc.;
- quality and structure of suppliers;
- entrepreneur’s cost;
- demand conditions; and
- cost, revenue and production functions.

The literature on production theory seems to be inadequate in its treatment specifically of the tourism SME (SMTE). The globalization pressure on SME’s and the issues that they face, such as their inability to achieve the economies of scale and to access the global distribution systems available to larger firms, are recent examples of reported tourism research in this area (Smeral, 1998, cited in Erkkila, 2004:24). Smeral (2004:24) also used Porter’s Diamond of National Advantage (Porter, 1990) relating firm competitive advantage to SME production issues, including factor conditions and the quality and structure of suppliers that form the destination.

Dahles (1997:2) observes that neither the liberal market model that promotes the expansion of tourism nor the controlled-development approach that supports sustainability, provides for any role of small and micro entrepreneurs in the

process of tourism development. Moreover, small entrepreneurs in tourism receive minimal attention in the literature, and few empirical studies examine the potential of small entrepreneurs as actors in tourism development. This gap in the literature in terms of any critical debate about the role of tourism, small businesses and their relationship to economic development is also acknowledged by Page *et al.*, (1999:436) and Shaw and Williams (1994:74) assessment that... *it is surprising how little attention has been paid to small businesses in tourism* remains a valid assessment of the situation.

3.3.1 Tourism and development

The term “tourism development” is often used without considering what it means and, since development of any component of tourism should coincide with the general aims of tourism development, it becomes necessary to define what is meant by development and its relevance to this study.

Telfer (2002:27) provides a useful definition:

Development is a complex, multi-dimensional concept which not only embraces economic growth and traditional social indicators, such as healthcare, education and housing, but also seeks to confirm the political and cultural integrity and freedom of all individuals in society. It is, in effect, the continuous and positive change in the economic, social, political and cultural dimensions of the human condition, guided by the principle of freedom of choice and limited by the capacity of the environment to sustain such change.

In an attempt to incorporate tourism in development theory, Telfer (2002:39) identified four paradigms that were present during the evolution of development theory. They are:

- modernisation, which is characterised by neo-colonialism and capital flight;
- dependency, which advocates local control and protectionist policies;
- economic neo-liberalism, which advocates less government; and

- alternative development, which includes environmental and sustainability concerns.

These paradigms are not mutually exclusive, but could quite easily be used together as a basis for development, depending on the goals or objectives of the country or destination under consideration.

In selecting tourism as a growth pole, governments identify a site, which is usually in an economically marginal area that is deemed suitable for sustaining a form of tourism development. With government initiatives and incentives, both public and private investment are injected into the selected area, often in the form subsidised facilities and infrastructure (Telfer, 2002:122).

The incentives attract additional tourism development and its employees. Eventually, economic growth in the area becomes self-sustaining and independent of tourism when a critical mass of residential population is attained. The larger residential population, rather than just tourism, attracts additional development. Government incentives may be withdrawn and the benefits of tourism “trickle down” from the growth pole to the surrounding area (Telfer, 2002:122).

In South Africa, tourism is viewed as an essential sector for national reconstruction and development, and one that offers enormous potential as a catalyst for country wide economic and social development (DEAT, 2003:6).

As Bins and Nel (2002:238) observe, a wide range of localities are now seeking to drive development through tourism promotion, often as an explicit part of their Local Economic Development (LED) programmes. A common focus of these new initiatives include the promotion of townships as black / African cultural tourism destinations, the hosting of cultural and arts festivals, heritage tourism, the promotion of newly identified tourist routes and the current massive expansion of game parks taking place.

3.3.2 The benefits of tourism led development

3.3.2.1 Benefits to less developed countries

Regarding the benefits of tourism to the less developed countries (LDC's) Harrison (1994:249) presents two opposing viewpoints:

- Advocates of tourism see tourism as a valuable aid to national, regional and local development, with capital investment and the transfer of skills specific to tourism leading to increased employment and general prosperity through changes in the infrastructure and through the operation of various kinds of Keynesian multipliers. According to this perspective, there is no doubt that capitalism, and capitalist-run tourism, bring development.
- On the other hand, critics of tourism, often employing a perspective derived from under-development theory, are inclined to suggest that because of the domination of international capital and the service element implicit in tourism, the industry reinforces the dependence of LDC's on Western capitalism. According to this view, investment is followed by "leakage" of foreign exchange, the jobs created by tourism are menial and demeaning, and the profits made from the labour of the poor in LDC's are channelled to the West.

According to this view, capitalist-run tourism contributes to under-development and not development. Trans-national companies operate at all levels of the industry, as travel agents, tour operators, hoteliers and airline operators, and tourism receiving countries, especially LDC's, are at a disadvantage when negotiating with these trans-national companies.

As a possible solution Harrison (1994:242) favours the need for the state to lend its support to local entrepreneurs, or even to become directly involved in the tourism industry. However, like any other industry, tourism not only creates jobs, it also brings opportunities for entrepreneurship. In some cases, established elites are able to capitalize on their advantage, but opportunities may also arise for

groups that are marginal to society, perhaps ethnic minorities or returning migrants, to establish a niche in the new industry.

It is argued by Rogerson (2004c:19) that unless deliberate policy interventions are made by government to counter the power of large enterprises, and/or to foster positive linkages with small firms, the best prospects for small enterprise development appear to lie in the arena of new tourism, including cultural and eco tourism.

3.3.2.2 Impacts of tourism development

The impacts of tourism development can be both economic and non-economic in nature. Non-economic impacts include socio-cultural consequences, educational benefits, peace promotion, etc. This study concerns itself with the economic benefits of tourism and as such supports the viewpoint that tourism brings with it development synergies.

Goeldner *et al.*, (1995:319) equates the tourism industry to an export product for the host nation, while Bennett (1995:358) lists the economic benefits of tourism as:

- being primarily an income generator;
- providing and creating employment;
- having a positive affect on the balance of payments; and
- encouraging investment and development.

Localities use tourism as an “invisible export” in the same way that they may use the production of tangible manufactured or agricultural goods in order to... *fulfil their overriding economic goals of wealth creation, employment generation and enhancement of the hosts population’s living standards* (Ioannides, 2003:41). As a sectoral focus for development promotion, tourism is sought by city managers and urban planners for the positive results it can offer local economies in terms of job creation and enterprise development (Law, 1993; Swarbrooke, 1999, 2000, cited in Rogerson, 2004f:1).

This study is primarily concerned with the economic benefit of providing and creating employment.

Mill and Morrison (1985:223) state that the Organisation for Economic Cooperation and Development (OECD) concluded that tourism provides a major opportunity for growth for countries that find themselves at the intermediate stage of economic development and that are experiencing rather fast economic growth and increasingly require more foreign-exchange earnings.

For the purposes of this study the statement by WTO (1983:10) is accepted... *that tourism can help to eliminate the widening economic gap between developed and less developed countries and regions and to ensure the steady acceleration of economic and social development, in particular in developing countries.*

Gunn (1988, cited in Bennett 1995:358) puts it eloquently: *Evidence of the economic impact of tourism is so overwhelming that it is no wonder that underdeveloped countries seek it and industrialised nations wish to protect it.*

3.3.3 Tourism as a development strategy

The arguments which favour tourism as a policy alternative for developing countries include, a) the fact that demand for international travel continues to grow in developed countries, b) as incomes in the developed countries increase, the income elasticity of demand for international travel will mean that it will increase at a faster rate, and c) developing nations need foreign-exchange earnings to aid their own economic development to satisfy the rising expectations of their growing populations (Mill & Morrison, 1985:222).

Critics of tourism as a development strategy point out leakages from the economy that arise from the import of products for the tourism industry and the domination of foreign and multi-national firms in the hotel, tour operating and transport sectors that redistribute tourism expenditures back to the developed areas where the firms are located (Mihalic, 2002:98).

3.3.4 Considerations for tourism development

Telfer (2002:39) is of the opinion that if the tourism industry is to be a viable force in the economy of the future, it must also be sustainable and use resources wisely. Moreover, local communities must have the opportunity to participate in the planning and operation of the tourism industry. By considering the scale and control of tourism development and local community and environmental linkages of tourism development in conjunction with the four development paradigms (see Section 3.3.1), Telfer (2002:39) proposes a conceptual framework for “appropriate and sustainable tourism development”, depicted in Table 3.1.

Table 3.1: Considerations for appropriate and sustainable tourism development

Components of Development	Consideration for Appropriate and Sustainable Tourism Development
---------------------------	---

(A) Scale and Control of Development

Focus	Profitable, part of larger concept of sustainable development
Scale of development	Mix of small and large scale resorts, restaurants, facilities
Rate of development	Incremental development according to community size
Economic distribution	High level of local participation, use of local resources
Planning	Participatory with stakeholders, community involvement
Local involvement	High level of local involvement at all stages of development
Ownership	Mix of foreign and local ownership
Industry control	Local control with foreign input
Role of government	Facilitates investment, environmental regulations
Management origin	Mix of foreign experts with locally trained specialists
Accommodation type	Mix of types, integrated resorts with small scale establishment
Spatial distribution	Mix of dispersed and concentrated tourism developments
Tourist type	Mix of types; mass to explorer, depending on local environment, develop codes of conduct for tourists
Marketing target	Identify market segmentation best suited to local community
Employment type	Combination of formal and informal employment
Infrastructure levels	Accordance with community capacity, integrated with economy
Capital inputs	Mix of high and low capital inputs
Technology transfer	High rates – integration with international tourism industry

(B) Local Community and Environmental Linkages

Resource use	Efficient use of resources and management of waste stream
Environment protection	Sustainable use of environmental resources, use of environmental management tools including EIA sustainability indicators
Hinterland integration	High level of linkages to hinterland – use of local products
Intersectoral linkage	Reduce external leakages and increase local linkages
Cultural awareness	Maintain cultural integrity; tourists to be aware of local culture
Institution development	Coordinated efforts to strengthen local institutions, involvement
Local compatibility	Local considerations influence scale and rate of development

Source: Sharply, cited in Sharply and Telfer, 2002:78

In Sharply's considerations under Scale and Control, are factors such as scale of development, economic distribution, planning and the role of government. Under Community and Environmental Linkages, the following factors are also important to this study: hinterland integration, international linkages and local compatibility. These factors will be discussed in more detail in Chapters four, five and six.

The conceptual framework in Table 3.1 is accepted for the purpose of this study as a guideline for all the components of tourism development.

3.3.5 Rationale of small business in tourism

3.3.5.1 Importance

According to the OECD (2004) there are in developed countries relatively few medium to large tourism enterprises. Micro-corporations with between one and nine employees, on the other hand, account for between 60% and 90% of all companies in leading tourism sectors in OECD countries.

After surveying nine different countries, Morrison and Thomas (2004), conclude that, *... within all the countries, SME's are recognized as significant, with the distinction being made that within this broad categorisation, it is the micro-sized enterprise that is most prevalent...in all economies represented, SME's are seen as the backbone of the tourism industry and drivers of social and economic transition.*

SME's are credited with creating a more diverse economic structure, they are seen as significantly more flexible in adapting to the ever-changing market environment, they stimulate competition, thus being an essential driving force behind innovation and quality improvement, and are applauded for their general contribution to stimulating an enterprise culture.

Lordkipanidz *et al.*, (2004:788) describe tourism as comprised mainly of small enterprises. Small companies can often respond quickly to new demands and markets and are sources of many innovations. They have the ability to observe the

market opportunities and to develop new products or services that markets demand, and they also provide a new source of employment to the economy.

Analyses have indicated that economic goals such as job opportunities, increased earnings, investment and entrepreneurship, as well as harmonious social and cultural development, are better served by small-scale hospitality projects as opposed to large, industrially scaled enterprises (Wanhill, 2000 cited in Telisman-Kosuta & Ivandic, 2004:211).

Much of the academic literature on tourism focuses on the demand side. That is, it deals with the tourist, what they like to do, how much they spend, and what they think of places, etc. What is not so common is a supply-side focus on firms engaged in providing tourism goods and services. Yet these very firms often provide the basis for an individual's satisfaction with a trip (Gartner, 2004:35). Gartner concludes that it appears that small firms in tourism, especially in developing countries, have a great deal working against them. But, as agents of economic development, small firms, which are the dominant form of tourism businesses at the destination level, are the backbone of a destination's tourism economy.

The importance of SME's is best summed up by Erkkila (2004:23) when he says, ... *it is clear that small and medium-sized enterprises are the life blood of the tourism and travel industry.*

3.3.5.2 Benefits of developing small businesses

The benefits of developing small businesses in tourism have been voiced by several writers (Rodenburg, 1980; Dahles, 1998; Wanhill, 2000, cited in Rogerson 2001). There are significant perceived benefits of SME development, particularly from a macro-economic point of view, making them attractive to tourism and hospitality planners on a national and regional level (Wanhill, 2000, Page *et al.*, 1999, cited in Telisman-Kosuta & Ivandic, 2004:220).

According to Dahles (1997:11) the main benefit of micro-industries (small-scale enterprises) is the fact that:

- This small-scale sector cross-cuts the boundaries between the formal, licensed, state-controlled market and the unlicensed, uncontrolled, partially “illicit” economic activities of local tourism industries.

Wall and Long (1996) add to this the following:

- Small scale enterprises are less disruptive in environmental and social terms.

They:

- have more modest capital requirements which permits local participation;
- are associated with higher multipliers and smaller leakages;
- leave control in local hands;
- are more likely to fit in with indigenous activities and land uses; and
- contribute to communal development and generate greater local benefits than large-scale tourism projects.

A principle argument in favour of encouraging the development of tourism SME's is that it creates many jobs. Williams (1998:84) acknowledges that one of the benefits of tourism is that it... *creates substantial volumes of employment*. The employment may be both direct employment within tourism businesses (for example, hotels) and indirect employment in enterprises that benefit from tourism (for example, general retailing).

In fact, tourism can create three forms of employment opportunities:

- direct employment – refers to employment generated in, for example, hotels, restaurants, tour companies, and nightclubs;
- indirect employment – refers to people working in activities that at times are dependent on tourism, and includes the construction trades, professionals and merchants; and
- induced employment – refers to the additional employment resulting from the effects of the tourism multiplier as local residents re-spend the additional money they have earned.

(Matheson & Wall. 1982. cited in Cukier. 2002:167)

Dahles (1997:26) argues that small-scale enterprises are a vigorous and visible element in the tourism sector and since many opportunities for informal employment are emerging within the industry they should be considered when the economic impact of tourism is examined.

3.3.5.3 *The informal sector*

The measurement and research of job creation in the tourism industry of developing countries is often hindered by the widespread existence of the “informal sector” as well as the existence of “multiple occupations”. Entrepreneurs in the informal sector are often excluded from official employment statistics and their legality is often questioned.

To Berry *et al.*, (2002) it becomes clear that the overall economic success of a country like South Africa depends on the nature and effective implementation of its SMME support policies.

This study will confine itself to “direct employment” through new venture creation and/or the expansion of existing small businesses in the “direct employment” category. Furthermore, those participants in the industry who can be regarded as forming part of the informal sector are omitted from this study.

Having established that the main area of concern of the study is economic in nature, the next section answers the question as to how these economic benefits of tourism can be measured.

3.3.6 Measuring the economic benefits of tourism

3.3.6.1 *Approaches*

Deciding how to measure the achievements of a particular venture is always problematic, given the difficulty in defining effectiveness and performance (Cameron, 1986 cited in Haber & Reichel, 2005). The use of multiple measures of

performance is often recommended (Westhead, Wright & Ucbasaran, 2001; Kallberg & Leicht, 1991, cited in Haber & Reichel, 2005). This section will look at the various methods available to measure the economic benefits of tourism.

The acknowledged differences between industries require that the characteristics of the industry be taken into consideration when performance is measured (Chrisman, Bauerschmidt & Hofer, 1998; Stearns *et al.*, 1995, cited in Haber & Reichel, 2005). Furthermore, it is assumed that within service industries, such as tourism, there are particular goals that stem from the conditions and characteristics unique to the industry (Getz & Carlsen, 2000; Lynch, 1998, cited in Haber & Reichel 2005).

Haber and Reichel (2005:258) identify the following broad approaches to measuring organisational performance and effectiveness:

- The goal approach measures progress toward attainment of organisation goals. The system resource approach assesses the ability of the organisation to obtain resources to maintain the organisational system. Both focus solely on a single dimension: attainment of goals or resources.
- In contrast, the stakeholder approach and the competitive value approach offer a more integrative and complex view of the organisation's performance, assessing it from various aspects such as those of customers, suppliers, competitors and internal stakeholders that may have their own goals and perspectives.

Among the suggested approaches, the goal approach is most widely used because the output goals can be readily measured (Haber & Reichel, 2005:258). Goal approach measures include indices that reflect the size of the business, generally both in terms of revenue and number of employees (Orser, Hogarth-Scott & Riding, 2000; Mohr & Spekman, 1994; Robinson & Sexton, 1994, cited in Haber & Reichel, 2005:259). Using revenues and number of employees as performance measures is especially relevant to small and new businesses that frequently do not have profit histories and are not expected to show profitability

during the first years of existence (McGee, Dowling & Megginson, 1995; Merz & Sauber, 1995, cited in Haber & Reichel, 2005:259).

3.3.6.2 Leakages

Although tourism can increase foreign-exchange earnings, Mill and Morrison (1985:223) warn against overstating these earnings. The value of goods and services that must be imported to service the needs of tourism is referred to as “leakage”. Leakage occurs from a variety of sources.

Examples include:

- the cost of goods that must be purchased to satisfy the needs of tourists;
- the import of goods and materials for infrastructure and buildings required for tourism development;
- payments to foreign factors of production;
- direct expenditure on promotion, publicity, and similar services abroad;
- transfer pricing; and
- foreign-exchange earnings that are reduced when host governments exempt duties or taxes on foreign-owned companies or offer financial inducements to them to attract investment.

3.3.6.3 The multiplier factor

The most common method for estimating the income generated from tourism is by determining the “multiplier” for a destination. Cooper, Fletcher, Gilbert, Shepherd and Wanhill (2000:132) define the term “tourism multiplier” as referring to the ratio of two changes – the change in one of the key economic variables such as output (income, employment or government revenue) in comparison with the change in tourist expenditure.

A simplified formula for calculating the multiplier is:

$$k = 1-L / 1-(c-cj-tjc)(1-td-b)+m$$

where,

k = the multiplier

L = the direct first-round leakages

c = the propensity to consume

c_j = the proportion of that propensity spent abroad

t_{jc} = the indirect tax

td = the value of direct deductions

b = the level of government benefits

m = the value of imports.

(Mill & Morrison 1985:227)

The size of the multiplier depends upon the extent to which the various sectors of the economy are linked to one another. When the tourism sectors buy heavily from other local economic sectors for goods and services, then there will be a corresponding smaller propensity to import, i.e., to prevent leakages.

Keyser (2003:293) identifies the following six types of multipliers which encompass the full impact of tourism on the economy:

- income multiplier – which measures the extra income generated in the economy as additional tourist expenditure is made;
- transaction multiplier – which measures the increased volume of business activity using sales turnover value in relation to initial tourist expenditure;
- import multiplier – which measures the additional volume of imports demanded due to an increase in the expenditure of tourists, and refers to an increase in leakages;
- government revenue multiplier – which measures government revenue (from all sources) created by increases in tourist expenditure;
- output multiplier – which measures the extra output in the economy resulting from an additional unit tourism expenditure; and
- employment multiplier – which measures the increase in employment (direct and indirect) generated by an additional unit of tourist expenditure.

A national literature search failed to find comparable multiplier figures for South Africa, with the exception of a general “tourism” multiplier of 1,82 established by the South African Foundation View Point (July 1999).

3.3.6.4 Other methods

According to Erkkila (2004), regional growth is traditionally measured by means of regional multipliers. Tourism’s unique problems with traditional, national economic accounting systems for regional input / output analysis have given rise to tourism satellite accounting (TSA) models. TSAs have extended national economic accounting with consistent form and structure defined internationally and led strategically, by the World Tourism Organisation (WTO).

The TSA approach gives the following key results:

- domestic tourism spending;
- government tourism expenditure;
- tourism capital investment;
- business travel;
- visitor exports (inbound spending);
- visitor imports (outbound spending);
- merchandise imports (leakages);
- tourism GDP, direct and indirect;
- tourism employment, direct and indirect; and
- tourism-related government revenue.

The TSA method of measurement provides a perfect tool but, unfortunately, the system has as yet not been implemented in South Africa.

Johnson and Thomas (1990) developed a mathematical model to measure the local employment impact of a tourist attraction (in this case the British Museum) which could conceivably be adapted to measure the local employment impact in a region. Unfortunately, the input figures required by this model are not available for the local region applicable to this study.

3.3.6.5 Measurement problems

Because the tourism industry is comprised of many different sectors of the economy, the amount of income generated by tourism, as well as the number of jobs created, becomes difficult to determine. The fact that many small businesses are involved, leads to difficulty in obtaining precise data, further compounding the problem. The problem of measurement is further exacerbated by the fact that leakage figures are not available, multiplier figures are not available, mathematical models have not been developed, and South Africa has to date not adopted the international Satellite Accounting System recommended by the WTO.

As far as direct employment is concerned, Mill and Morrison (1985:229) are of the opinion that the cost per job created in tourism is no less than in other sectors of the economy. Furthermore, because of the seasonality of the business and the resulting desire to ensure a balance between market demand and staff requirements, a business tends to adopt one of two strategies:

- either employees are laid off during the low season; or
- additional employees are imported from other regions during the high season.

In the former situation, tourism cannot provide a meaningful job to a resident. In the latter situation, employees will spend most of their wages outside of the destination region. Thus, jobs and income are lost to the local area.

The amount of indirect or secondary employment generated depends on the extent to which the tourism sector is integrated with the rest of the local economy. The more integration and diversification that occurs, the more indirect employment is generated (Mill & Morrison 1985:230).

3.3.6.6 Method adopted

In view of the above mentioned difficulties in measuring the economic benefits of tourism to the local economy, the method adopted by this study is that of measuring direct job creation.

This approach is supported by Rogerson (2004e:770). He states that a potentially useful indicator would be the number of SMME's that have shown signs of survival and long-term growth, as indexed by the expansion in the numbers of their employees.

Further support comes from Sorenson and Epps (2003) who accept job creation as an indicator of industry growth, and Page and Poole (2003) who state that job creation and new firm creation are the most commonly used measures for evaluating the success of economic development.

3.4 TOURISM, SMALL BUSINESS AND ENTREPRENEURSHIP

Large numbers of economically and socially marginal people in developing countries have to look for self-employment to survive, as normal channels of employment and income generation have been and continue to be out of reach to them, especially as they face intense competition from the educated and skilled groups. Entrepreneurship development, as a facilitator of self-employment, seems to be a potential strategy to help the marginal communities escape the poverty trap (Jithendran & Baum, 2001:137). Similarly, Maas and Fox (1997:88), see entrepreneurial activity as a means whereby the cycle of poverty and dependency that has long afflicted less developed countries can be broken.

3.4.1 The relationship between SME's and entrepreneurship

According to Bukula (2000), literature on entrepreneurship makes a point of differentiating between entrepreneurship and small business promotion. It is, however, acknowledged that small business formation is one of the key vehicles for entrepreneurship.

This distinction made between entrepreneurial ventures and small businesses is supported by Wickham (2001, cited in Nieuwenhuizen, 2003), who believes that entrepreneurial ventures and small businesses pursue and create new opportunities differently, they fulfil the ambitions of their founders and managers in

different ways, and they present different challenges to economic policy makers. Both need entrepreneurial action for start-up, but the small business venture will tend to stabilize at a certain stage and only grow with inflation. According to Nieuwenhuizen (2003:10) small business owners are individuals who establish and manage their business for the principal purpose of furthering personal goals and ensuring financial security.

Entrepreneurship is the emergence and growth of new businesses. Entrepreneurship is also the process that causes changes in the economic system through innovations by individuals who respond to opportunities in the market. An entrepreneur is a person who sees an opportunity in the market, gathers resources, and creates and grows a business venture to meet these needs. He or she bears the risk of the venture and is rewarded with profit if it succeeds (Nieuwenhuizen, 2003:19).

Timmons (1999) defines entrepreneurship as a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach and leadership balanced.

Many governments of developing countries give priority to large-scale investments in tourism as they expect tourism to contribute significantly to national income and employment. However, it has been shown that large-scale trans-national enterprises are often not as effective as originally believe to be in increasing foreign exchange earnings and job opportunities (Rodenburg, 1980; Britton 1989, cited in Dahles, 1997:23). This is because significant economic leakage takes place due to the purchase of foreign supplies and labour and to the channelling of profits out of the developing countries (Dahles, 1997:23). Local ownership implies that economic success for the entrepreneur results in benefits to the local economy (Rodenburg, 1980, cited in Dahles, 1997:23).

Ray (1988, cited in Echtener, 1995:123) lists a number of contributions that entrepreneurs make to the development process in developing countries:

- raising productivity;
- creating employment;

- restructuring and diversifying the economy;
- reducing the concentration of economic power through a wider dispersal of industry ownership;
- reducing market inefficiencies by making the market place more dynamic and competitive;
- improving the social welfare of a country by harnessing dormant, previously overlooked talent;
- commercialising innovative products and services; and
- creating new markets.

Jithendram and Baum (2001:41) are of the opinion that the above attributes seem to be very relevant to the small, medium and locally owned tourism enterprises. The fact that SMMTE's, together with the local community, can also develop locally available resources and transform and package these resources and local cultural elements into attractive and desirable tourism products, brings Jithendram and Baum (2001:41) to the conclusion that developing and facilitating local entrepreneurship seem to be a major challenge for the tourism policy makers who wish to develop sustainability-oriented tourism.

The field of small business is similar to the field of entrepreneurship, in that it recognises the importance of the manager, who is often the owner, in understanding and attempting to explain small business performance (Bruyat and Julian, 2000).

3.4.2 Entrepreneurship and tourism

3.4.2.1 *Importance of entrepreneurship*

Considering the emergence of tourism as a dynamic and fast growing industry and its role in economic development, the importance of entrepreneurship and small business in tourism development, especially in developing countries, cannot be overemphasised. In fact, it is important for policy makers to understand what

induces entrepreneurship and what factors affect the supply of entrepreneurship in order to increase it (Lordkipanidze *et al.*, 2004:793).

3.4.2.2 Government intervention

Despite a major effort on the part of Government to, amongst other measures, provide incentives to encourage industrial development and hence stimulate job creation, results in terms of employment creation remain unsatisfactory. In order to solve this problem, Government is now turning its attention to looking at entrepreneurship development and the promotion of self-employment as strategies that can help to overcome the national unemployment problem.

3.4.2.3 International research

Kirsten and Rogerson (2002) supply a useful review of international research on tourism, entrepreneurship and small enterprise development, which focuses particularly on the experience of the developing world. According to them, within the very limited literature that address issues surrounding entrepreneurship and SMME development in the developing world, there are several important and different themes of writing. They are:

- Large firm dominance, small enterprise exclusion (Britton, 1982, 1983; Opperman, 1993; Harrison, 1994).
- Alternative tourism (Weaver, 1991, 1995, 1998; Brohman, 1996).
- Small enterprise and poverty alleviation (Britton, 1982; Opperman, 1993; Timothy & Wall, 1997; Goodwin 1998, 2000; Shah & Gupte, 2000).
- Business linkages (Grierson & Mead, 1996; Alila & McCormack, 1998; McCormack and Atieno, 1998; Telfer & Wall, 2000).

3.4.2.4 Understanding the impact of tourism

Shaw and Williams (1998:235) are of the opinion that a large part of the difficulty in understanding the impact of tourism on economic change stems from a failure to consider fully the nature and role of entrepreneurship. They quote de Kadt's

(1979) criticism of some developing economies that rely on international tourism as a growth strategy because of its over-dependency on external capital and entrepreneurship, and Rodenburg's (1989) demonstration that, in Bali, large trans-national organizations were ineffective in increasing foreign exchange earnings and job opportunities. That was due mainly to significant economic leakages through profit remittance and out-of-region sourcing of material and service inputs.

Go (1997:5) acknowledges the neglect of entrepreneurial activity in both tourism research and tourism development. He postulates that, when attempting to answer the question "What is an entrepreneur?" one has to consider the inter-relationship between the person, the task and the organisational context, which are set and function within the external environment.

- An entrepreneur is a person who undertakes a wealth-creating and value adding process, through incubating ideas, assembling resources and making things happen.
- Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological and social risk for the purpose of creating wealth for the individual.
- The organisational context refers to the traditional fragmentation of the industry and the fact that in most countries it is comprised of small enterprises.
- The environment refers to the implications of operating within the so-called "developing countries", and the concurrent effects of trans-nationalism and globalisation on the industry within these countries.

3.4.2.5 Benefits of stimulating entrepreneurship

The benefits of tourism via local development must be manifested by local employment generation and entrepreneurial activity. Local entrepreneurial activities are important in three aspects:

- it would facilitate more linkages with sectors of the local economy generating demand for local products and labour;

- the profits from tourism business will accrue to the local population; and
- the ownership and active participation in the tourism business will enhance local tolerance to tourist activities.

(Matheson & Wall, 1982; D'Amore, 1983; Rodenburg, 1989, cited in Jithendram & Baum, 2000).

Table 3.2 shows the potential advantages which can be achieved by stimulating entrepreneurship.

Table 3.2 Potential economic socio-cultural and environmental advantages of the stimulation of entrepreneurship

Economic Advantages	Socio-cultural Advantages	Environmental Advantages
<ul style="list-style-type: none"> - Increase in overall employment. - Increase in employment outside agriculture. - Diversification of local economic activity. - Strengthening and expansion of existing enterprises. - Increase in the number of investors. - Increase in the number of local tourism enterprises (by turning locals into entrepreneurs). 	<ul style="list-style-type: none"> - Strengthening the local culture and identity through promoting local products/services. - Keeping population locally, as a result there will be decreased migration, good occupational opportunities and an educational background for young generations. - Improvement in the quality of life. - Increasing awareness of the value of heritage and need for its protection. - Improved educational level (knowledge about managing business). 	<ul style="list-style-type: none"> - Protection and preservation of the rural cultural/natural heritage. - Reduction of resource use, minimising waste and safeguarding environmental qualities, thus preserving biodiversity. - Promotion of sustainable development of tourism products and related business areas. - Sustainable land management. - Less environmental impacts due to the small scale character of rural tourism entrepreneurs.

Source: Adapted from Lordkipanidze *et al.*, 2004:796

In a reference to entrepreneurship in tourism, Dahles (1997:28) distinguishes between entrepreneurs who primarily control first-order resources (land, equipment, jobs, funds and specialised knowledge), termed “patrons”, and those who control predominantly second-order resources (strategic contacts with other people who control first-order resources) as “brokers”.

Kirsten and Rogerson (2002:30) identify a number of variables which are significant to employment creation and entrepreneurship development within the tourism sector. They are:

- the nature and location of the tourism project;
- the size and source of investment;
- the policy intentions that accompany the investment; and
- the level of support that is available to entrepreneurs.

Although acknowledging the fact that tourism is most successful when driven by the private sector, Kirsten and Rogerson (2002) acknowledge the need for government intervention to achieve policy objectives.

According to Agenda 21, sustainable tourism development is defined as the management of all resources in a way that economic, social and aesthetic needs can be fulfilled while maintaining cultural heritage, essential ecological processes, biological diversity and life support systems. Acknowledging this definition, Lordkipanidze *et al.*, (2005) are of the opinion that an entrepreneurial orientation with respect to rural development should be based on stimulation of local entrepreneurs, thus creating jobs and adding economic value to a region and community and at the same time keeping scarce resources within the community. Furthermore, it can be assumed that sustainable entrepreneurship, in its essence, is not different from other types of entrepreneurship, but it takes into consideration the social and environmental issues together with economic ones. By implication, sustainable entrepreneurs are more responsible.

3.4.3 Tourism entrepreneurship – regional considerations

The OECD (in Bukula, 2000:16) argues that, given the variety of location-specific factors that affect entrepreneurship and the opportunities for encouraging entrepreneurship through local measures, policies that fail to take account of regional differences are less likely to be successful. Many important programmes to support entrepreneurship are best designed and implemented by local authorities.

One of the key recommendations of Bukula's (2000) report is... that *the promotion of entrepreneurship must be made a mandatory function of local Government and*

constitute an important part of the performance measurement of local Government.

The report also identifies five priority areas which are seen to be essential to encouraging entrepreneurial activity and in which policy proposals are recommended. They are:

- entrepreneurial culture;
- education;
- skills development;
- access to finance; and
- bureaucratic hindrances.

These priority areas, together with perceived bottlenecks and corresponding policy recommendations, are depicted in Table 3.3.

Table 3.3: Priority areas, bottlenecks and policy recommendations

Policy area	Bottlenecks	Policy recommendations
Entrepreneurial culture	<ol style="list-style-type: none"> 1. Parental approval is necessary to stimulate venturing into business. 2. There is limited inclination among the youth to take risks to start a business. 3. Senior managers are hesitant to make a move into self-employment. 4. A high number of those who start their own business do so out of need rather than a clear entrepreneurial drive. 	<ol style="list-style-type: none"> 1. Place entrepreneurship on the political agenda. 2. Develop and stimulate entrepreneurship awards at all levels. 3. Appoint (former) entrepreneurs into positions dealing with entrepreneurship policy. 4. Involve key organisations such as Churches, Civics, Trade Unions, and Business Organisations in promoting entrepreneurship.
Education	<ol style="list-style-type: none"> 1. The education system trains for wage employment rather than self-employment. 2. Basic education levels are low, especially among the PDI. 3. There are few entrepreneurship courses. 	<ol style="list-style-type: none"> 1. Develop entrepreneurial spirit from low educational level upwards. 2. Stimulate the development of entrepreneurship curricula and its integration into education. 3. Train educators to teach entrepreneurship. 4. Incorporate practical entrepreneurial experience into the curriculum. 5. Establish Entrepreneurship Chairs at universities and technikons.
Skills	<ol style="list-style-type: none"> 1. Lack of skills, especially among PDI. 2. Lack of technical skills. 	<ol style="list-style-type: none"> 1. The Employment Equity Act will enable the PDI to gain managerial experience. They must subsequently

Policy area	Bottlenecks	Policy recommendations
Skills (<i>continued</i>)	3. Lack of technology and innovation skills.	<p>be encouraged to start their own business.</p> <p>2. Transfer technical know-how from research institutes to SMME's and start-ups by strengthening and expanding existing mechanisms to do this.</p> <p>3. Vocational training should emphasise a continuous search for improvement in products and processes.</p>
Finance	<p>1. Low savings rate inhibits accumulation of capital.</p> <p>2. Gap between financing levels of banks and MFT's.</p> <p>3. Inadequate collateral for loans.</p> <p>4. Risks of high debts in case of bankruptcy.</p>	<p>1. Develop mechanisms to facilitate mobilisation of savings, especially in rural areas.</p> <p>2. Support viable private sector and NGO initiatives to provide access to funding, especially in rural areas.</p> <p>3. Permit NGO's to accept deposits without registering as banks under the Bank Act.</p> <p>4. Adapt the Bankruptcy Law to limit the personal liability level.</p>
Bureaucratic hindrances	<p>1. Prospective start-ups are deterred by red tape.</p> <p>2. Existing and growing entrepreneurs face high compliance costs.</p>	<p>1. Improve access to facilities, e.g., by decentralizing business registration.</p> <p>2. Improve access to the Commercial Justice System, especially the Small Claims Courts.</p> <p>3. Continue the National Regulatory Review, ensuring focus on both existing firms and start-ups.</p> <p>4. Set goals to mitigate compliance costs.</p>

Source: Bukula, 2000:109

3.4.4 The role of culture

Lordkipanidze *et al.*, (2005:789) state that there is a connection between the culture of the people and its tendency to be entrepreneurial. Some cultures or social groups are more in favour of entrepreneurial behaviour than others. Therefore, understanding the cultural and social basis of a particular community or region can provide an appropriate starting point for building a more entrepreneurial society and economy.

The influence of culture on the rate of entrepreneurship is acknowledged by Mazzarol (2001), Tshikuku (2001), and Pretorius and Van Vuuren (2002).

Although much has been written about “culture”, an in-depth analysis thereof is beyond the scope of this study. However, in considering the phenomenon of widely dispersed cultures among the regional populations of South Africa, the author is of the opinion that a precise definition of what is meant by the concept can highlight the effects that culture can have on the decision to become an entrepreneur or not.

Culture is... *the collective programming of the mind which distinguishes the members of one group or category of people from another* (Hofstede, 1991, cited in Verheul *et al.*, 2001:36).

Culture is a highly complex phenomenon which is intangible and largely unobservable.

Furthermore, attitudes also matter, as it is widely accepted that more entrepreneurship will take place if it is valued and respected, and if a business failure is seen as a useful learning experience rather than a source of stigma. The European Commission (2000) supports this view and states that a culture of entrepreneurship needs to be encouraged, particularly among young people, by promoting enterprise in the school curriculum.

The researcher is of the opinion that both changes in attitude and culture can only be achieved in the long-term. However, what South Africa needs is an interim measure to encourage entrepreneurship.

3.4.5 SME's in tourism – key success factors

Success of big businesses is often measured by revenue volume, net profit, return on investment and the ratio, revenues to income per worker. Although not discarding these measures, the success of small, medium and micro tourism enterprises (SMMTE's), for the purpose of this study, will be measured by the number of employees and the survival of the enterprise.

To examine factors which influence the performance of small tourism ventures, Lerner and Haber (2001:81) employed a model that combines the following four theoretical approaches.

- The Environment Milieu Approach, which focuses on the important role of location on various aspects businesses such as venture creation and performance.
- The Institutional Support Approach, which focuses on institutional support mechanisms for entrepreneurs and their impact on venture performance (in particular on the use of external financing and a governmental tourism incubator's advisory service).
- The Entrepreneurial Human Capital Approach, which attributes the level of performance of the venture primarily to the education, experience and skills of the entrepreneur as well as to their personnel entrepreneurial characteristics.
- The Venture Features Approach, which focuses on the influence on performance of "the number of services provided".

The findings of Lerner and Haber (2001:82) can be summarised as follows:

- The attractiveness of the location (measured by the presence of tourist-related infrastructure, excursions and scenery) are positively correlated to the success of SMMTE's.
- Those tourism ventures that are financially supported by external sources are not necessarily more successful than those not receiving support.
- An entrepreneur's personality characteristics, family background, education, personal experience in the tourism industry and managerial skills are positively related to the tourism venture's performance.
- The number of services offered by a tourism venture does not positively affect the venture's performance.
- The overriding factor contributing to performance is that of human capital (mainly management skills).

They conclude that, in order to increase resident-responsive, community based tourism development, it is necessary to provide tailored regional business and management training tools for tourism entrepreneurs.

This view is supported by Dieke (2001) who argues that while tourism has the capacity to create more jobs than any other sector of the economy, without adequate human development forming part of the tourism development process, leakage in the form of employing overseas personal will not be combated.

Lerner and Haber (2001) are also of the opinion that managerial skills are so crucial for venture success that the main objective of advisory incubators should be to promote managerial competencies.

Lussier (1995, cited in Blackwood & Mowl, 2000) found that the factors most commonly quoted as contributing to business success versus failure are, in order of importance,

- undercapitalisation;
- lack of management experience;
- poor planning;
- inadequate financial record keeping and control;
- lack of industry experience; and
- failure to seek external advice.

They identify seasonal demand as another factor for businesses dependent on the tourist trade.

3.5 OPPORTUNITIES FOR SMTE's IN DEVELOPING COUNTRIES

3.5.1 The link between entrepreneurship and economic development

The Global Entrepreneurship Monitor (GEM 2002:20), investigating the link between entrepreneurship and economic development, makes the following observations:

- the level of entrepreneurial activity has an impact on economic development in a country;
- new firms and, to a lesser extent, start-ups have a vital role to play in the creation of jobs in South Africa; and
- to increase economic growth and employment creation, South Africa needs to enable a higher proportion of start-ups to progress to the stage of new firms.

This last observation by the GEM is of particular importance to this study.

3.5.2 Shortage of statistics

Addressing the lack of statistics concerning Rural Tourism Micro Enterprises (RTME), Richardson (2001:56) lists the following consequences of this deficiency as:

- long-term (public sector) planning will be inhibited;
- investments in infrastructure beneficial to RTME cannot be justified;
- employment policy does not take into consideration the potential of RTME as an “engine for growth”;
- the lobbying position of RTME is weak; and
- financial institutions are reluctant to supply investment requirements.

3.5.3 Limited opportunity

Rogerson’s (2001) analysis of the limited literature on entrepreneurship and SMME development in the Third World, has led to his identification of three key themes impacting on entrepreneurship and tourism in the developing world.

- First, there is the relationship between tourism SMME development and the structure of the tourism sector as a whole including its dominance by large tourism enterprises.
- The second theme concerns the somewhat limited prospects for SMME development within the mainstream tourism development approach compared with forms of alternative tourism.

- Finally, there is the debate on informal tourism enterprise in the Third World.

Considering these three themes, Rogerson (2001) reaches the conclusion that there is limited opportunity for SMMTE development in developing countries and that small tourism entrepreneurs should follow the route of alternative tourism.

According to Timothy and Wall (cited in Rogerson, 2001), the informal sector is viewed as... *tourism-related activities which are generally beyond the effective control of the tourism authorities*. They argue, furthermore, that whilst *the informal sector is involved in serving tourists in many developing area destinations, it has received very little scrutiny in the academic literature and is often overlooked in tourism planning exercises*.

3.5.4 Alternative tourism

As far as alternative tourism is concerned, Rogerson (2000:108) acknowledges the difficulty in finding a concise definition in the literature of the concept of alternative tourism. For the purpose of this study we will use the definition “as a generic term that encompasses a whole range of tourism strategies (for example, ‘appropriate’, ‘eco-’, ‘soft-’, ‘responsible’, ‘people to people’, ‘controlled’, ‘small-scale’, ‘cottage’, and ‘green tourism’), all of which purport to offer a more benign alternative to conventional mass tourism”. (Fennel, 1999:9, cited in Rogerson, 2001).

Alternative tourism is often associated with high levels of SMME participation because of the following reasons:

- alternative tourism often consists of small-scale, dispersed and low density developments located in and organised by villages or communities;
- ownership patterns in alternative tourism are weighted more towards local, family-owned, relatively small-scale businesses;
- alternative tourism encourages community participation in planning and seeks to strengthen institutions designed to enhance local participation and give priority to local needs and enterprises; and

- alternative tourism emphasises sustainability in both an environmental and a cultural sense.

(Rogerson, 2001:108)

Another form of alternative tourism is ecotourism, which is defined by Fennel (1999:43) as *a sustainable form of natural resource-based tourism that focuses primarily on experiencing and learning about nature, and which is ethically managed to be low-impact, non-consumptive, and locally oriented (control, benefits and scale).*

Rogerson (2001:109) voices the opinion that, in terms of SMMTE opportunities, both ecotourism *per se* and alternative tourism more generally are considered to hold great promise.

This viewpoint is supported by Harrison (1994:242) who states that the mainstream model of tourism development is dominated by large capitalist enterprises which operate according to the dictates of market competition and technological efficiency.

From this perspective, small locally owned tourism enterprises are essentially *left to scratch around for any crumbs* that might fall from the table dominated by large enterprise.

3.5.5 An alternative approach

However, given the acceptability in developing countries of government intervention under the circumstances of market failure, the government has an important role to play in trying to achieve the benefits of tourism as a development tool and, with careful planning and support structures, entrepreneurship need not be confined to alternative tourism activities.

Support for this view comes from Cukier (2002:170) who, after examining existing case studies and literature, makes the following generalisations about the relationship between tourism and employment in developing countries:

- there is a positive but widely varying correlation between the income-generating effects of tourism and the creation of employment;
- employment is influenced by the type of tourist product, with some types being more labour intensive or having a higher capital / employment ratio than others;
- the type of skills available locally will have an effect on the type of employment created;
- almost all employment opportunities associated with tourism are highly prized and attractive from the perspective of local residents;
- although tourism employment may be seasonal or part-time, and thus may have little effect in reducing overall employment levels, this is partially offset by the prevalence of multiple employment in developing countries; and
- employment opportunities are created for woman and students who previously had little or no opportunity to work within the formal sector.
(This is particularly true for the “previously disadvantaged” individuals of South Africa).

In summary, planning for entrepreneurial activity should take note of the constraints imposed upon SMMTE’s by existing power relationships and the domination of large enterprises. Furthermore, attention should be paid to encouraging the tourism activities of the “informal sector”.

3.6 TOURISM-RELATED SMME’s IN SOUTH AFRICA

3.6.1 Approach

Unfortunately, at the time of writing, the principle of National Satellite Accounting advocated by the WTO, has not yet been implemented in South Africa and, as such accurate figures pertaining to the tourism industry are not available. For the purpose of this study, work that has been done on the tourism sector in South

Africa as well as research done in general on SMME's is accepted as applying to SMME's that operate in the tourism industry.

3.6.2 Forecast figures

Assuming a tourism multiplier equal to 1.82 for the country, the South Africa Foundation View Point (July 1999) estimates the contribution made by tourism to the Gross Domestic Product (GDP) in 1998 as equal to 10.9%, while the total amount of job opportunities amounted to 1 119 621 and the contribution to government revenue for the same period was R22.6 billion.

These figures compare favourably with the WTTC (1998) forecast which, utilising the concept of National Satellite Accounting, distinguishes between:

- a baseline forecast – the most likely;
- an optimistic forecast – with most favourable circumstances; and
- a pessimistic forecast – with most unfavourable circumstances.

These scenarios are applied, firstly, to the Travel and Tourism (T & T) industry (showing the size of the sector comprising transport, accommodation, catering, recreation and related activities) and, secondly, to the Travel and Tourism (T & T) economy (showing the impact of travel and tourism as it ripples through the wider economy). These figures are depicted in Table 3.4.

**Table 3.4: South Africa Travel and Tourism Forecast 1998 to 2010:
Baseline Case**

Category	1998		2010		Average growth rate p.a. forecasted 1998 – 2010
	Rand	% of total	Rand	% of total	
T & T Economy:					
GDP	53.2	8.2%	210.9	10.3%	4.5%
T&T Employment (<i>thousands</i>)	737.6	7.0%	1253.7	9.3%	
T&T Industry:					
GDP	16.98	2.6%	68.1	3.3%	4.5%
T&T Employment (<i>thousands</i>)	248.14	2.4%	422.18	3.1%	
All rand figures are in billions. All employment figures are in thousands.					

Source: Constructed from figures obtained from WTTC Satellite Account Table 1, 1998

According to the so-called baseline case of the WTTC, the South African Travel & Tourism sector is expected to grow at 5.5% per year between 1998 and 2010, compared to a forecasted rate of 4.1% for the global industry during the same period. Similarly, employment growth in the sector is expected to proceed at a rate of 4.5% between 1998 and 2010, raising its contribution to total employment from 7% to 9.3%.

In lieu of the poor performance of the tourism industry in South Africa over the past several years, the WTTC (2004) has re-considered its 1998 forecasts and estimates. The revised figures are depicted in Table 3.5.

**Table 3.5: South Africa Travel and Tourism Forecast 2002 to 2012:
Baseline Case**

Category	2002		2012		Average growth rate p.a. forecasted 1998 – 2010
	Rand	% of total	Rand	% of total	
T & T Economy:					
GDP	72.5	7.1%	194.3	8.1%	4.9%
T&T Employment (thousands)	1148.0	6.9%	1515.3	7.9%	3.1%
T&T Industry:					
GDP	31.1	3.0%	84.8	3.5%	5.1%
T&T Employment (thousands)	492.7	3.0%	679.2	3.4%	3.3%
All rand figures are in billions. All employment figures are in thousands.					

Source: Construction from figures obtained from WTTC, 2004

Travel and Tourism jobs in South Africa, totalling 492 700 in 2002, represent 3.0% of the country's workforce. By 2012, Travel and Tourism industry employment is expected to increase by 186 500 jobs to 3.4% of total employment in South Africa. The 1 148 000 Travel and Tourism economy jobs in 2002 represent 6.9% of the total workforce in South Africa. By 2012, Travel and Tourism economy employment is expected to increase by 407 300 jobs to 7.9% of total employment in South Africa. The growth rate of jobs over the next ten years is expected to be 3.1% for the Travel and Tourism Economy and 3.3% for the Travel and Tourism Industry.⁹

⁹ See Section 3.6.2 for an explanation of the difference between these two concepts.

3.6.3 Comparing forecasted figures

Table 3.6 compares the South African growth rates to those of Sub-Sahara Africa and the World in general.

Table 3.6: South African growth figures compared to Sub-Saharan Africa and the world, 2002 to 2012

Category	South Africa	Sub-Sahara	World
T&T Economy GDP	4.9%	5.6%	4.0%
T&T Economy Employment	3.1%	4.3%	2.3%
T&T Industry GDP	5.1%	6.0%	3.8%
T&T Economy Employment	3.3%	4.2%	2.4%

Source: Constructed from figures obtained from WTTC, 2004

Although comparing favourably with estimates and forecasts for the world in general, the adjusted estimates and forecasts for South Africa are less than those of Sub-Saharan Africa.

The significance of the above estimates and forecasts to this study lie in the fact that, notwithstanding the need for re-adjustments, South Africa's Travel and Tourism growth estimates have the potential to do better than the forecasted estimates (WTTC, 2004:8).

3.6.4 Importance to South Africa

In the Third World context, the economic objectives of increased earnings, foreign exchange investment and job opportunities as well as the maximization of adverse social and cultural effects are not best promoted through inward investment and large tourism enterprise. Instead, the advantages of developing small, medium and micro-enterprise (SMME) tourism businesses are increasingly stressed (Wanhill, 2000).

Although comparable figures are not available SMMTE's in South Africa will probably follow a similar pattern to those in Europe, where the European Commission describes the tourism industry as SME-dominated, with over 99% of firms counting fewer than 250 employees, and about 94% employing less than 10 persons.

According to Rogerson (2001:105), the neglect of SMME's in tourism studies is surprising in view of the emphasis placed by the White Paper on the Development and Promotion of Tourism in South Africa (1996) upon the "entrepreneurial opportunities" of responsible tourism in South Africa.

The importance of SMMTE's is further illustrated by analysing the importance attached to the South African tourism industry by the Department of Environmental Affairs and Tourism (DEAT) whose vision is:

..to develop the tourism sector as a national priority in a sustainable and acceptable manner, so that it will contribute significantly to the improvement of the quality of life of every South African. As a lead sector within the national economic strategy, a globally competitive tourism industry will be a major force in the reconstruction and development efforts of the government

(White Paper: Development and Promotion of Tourism in South Africa, 1996:24)

Tourism is clearly considered a key economic sector in South Africa. In fact, a number of government policy objectives are directly derived from the aim of increasing the tourism sector's contribution to the economy (Mahoney & Van Zyl, 2002:85).

3.6.5 Progress and achievement since 1996

According to Berry, Von Blottnitz, Cassiem, Kesper, Rajaratnam and Van Seventer (2002:5), the removal of apartheid, although necessary, has been insufficient in

unravelling the full potential of the SMME economy because the inherited structures contribute to the following:

- a highly dualistic economy characterised not only by a high productivity (modern) sector and a low productivity (informal) sector with little interaction between them, but also by a division along racial lines;
- a transition phase marked by political uncertainty and considerable crime and violence, both with a negative impact on local and foreign direct investment in the modern sector;
- a recent shift in industrial policy to the liberalisation of trade and finance and a rapid technological change reflecting a comparable process at the global level; and
- low levels of education and training among the participants in the traditional sector who have, in addition, suffered from the suppression of entrepreneurial activities.

According to Rogerson (2004b:224), an inadequate supply of finance to tourism SME's has been identified as one of the key reasons for the limited and slow transformation that has taken place in the South African tourism industry.

Notwithstanding these findings, the South African Government is dedicated to the growth of tourism-related SME's as is witnessed by their guiding principles, economic objectives and social objectives.

3.6.6 Guiding principles

The following principles will guide the development of responsible tourism in South Africa:

- tourism will be private-sector driven;
- government will provide the enabling framework for the industry to flourish;
- effective community involvement will form the basis of tourism growth;
- tourism development will be underpinned by sustainable environmental practices;

- tourism development is dependent on the establishment of cooperation and close partnerships among key stakeholders;
- tourism will be used as a development tool for the empowerment of previously neglected communities and should particularly focus on the empowerment of women in such communities;
- tourism development will take place in the context of close cooperation with other states within Southern Africa; and
- tourism development will support the economic, social and environmental goals and policies of the government.

(White Paper: Development and Promotion of Tourism in South Africa, 1996)

3.6.7 Key economic objectives

The said White Paper (1996) also identifies the following key economic objectives:

- to generate economic growth and foreign exchange, by aggressively developing and promoting tourism;
- to establish tourism as a national priority;
- to create sustainable employment opportunities and contribute to the well-being of all people of South Africa;
- to optimise opportunities for SMME's, specifically emerging entrepreneurs
- to use tourism to aid the development of rural communities;
- to promote domestic tourism amongst all South Africans;
- to encourage tourism growth and cooperation in Southern Africa;
- to facilitate balanced tourism development in South Africa;
- to create a conducive tourism investment climate;
- to encourage linkage between tourism and other industries in order to curb leakages and stimulate the multiplier effect; and
- to lengthen the tourism season in order to minimise the negative effects of seasonality on the industry.

3.6.8 Key social objectives

The White Paper (Development and Promotion of Tourism in South Africa, 1996) goes on to identify the following key social objectives:

- to develop tourism with dignity – encouraging mutual respect for all cultures and eliminate all forms of discrimination on the basis of language, religion, culture, race, age, sex, wealth, ability, or other;,,
- to provide appropriate tourism education, training, awareness and capacity building programmes, especially aimed at previously neglected groups;
- to encourage participation by all South Africans in tourism planning and policy formulation;
- to promote pride in the cultural resources of the country;
- to use tourism as a catalyst for human development, focusing on gender equality, career development and the implementation of national labour standards;
- to promote, through tourism, nation-building and peace amongst the people of South Africa as well as internationally, and promote greater respect for human life;
- to encourage the active participation of all South Africans in tourism development, particularly at local level;
- to empower community structures through, for example, involvement in the marketing of cultural experiences and practices to tourists;
- to ensure that all South Africans have equal access to travel opportunities and tourism attractions;
- to encourage community participation in the planning, development, implementation, management of tourism projects; and
- to monitor and minimise potential adverse social impacts of tourism.

3.6.9 Current position

According to Berry *et al.*, (2002:13), an analysis of different indicators to determine the size of the South African SMME sector such as Business Partners, Eskom Survey 1999, Global Entrepreneurship Monitor SA 2001, Management Sciences

Group Survey 1999, Ntsika 1999, and Statistics SA 2000 leads them to conclude that there are between 1.6 and 3.0 million SMME's in the country. They emphasise, however, that the weight of the smallest size category (micro-enterprises) is overwhelming. Although their contribution to the GDP is minor, they represent between 1.2 and 2.8 million businesses, i.e. between 69% and 80% of all SMME's. Berry *et al.* estimate that the contribution of all SMME's to GDP to be between 12% and 14.5%.

Acknowledging the fact that employment generation can either take place via expansion of existing businesses or through the new formation of businesses, Berry *et al.*, (2002), are of the opinion that micro-enterprise and the forming of very small firms, and not the expansion of existing SMME's, accounted for the overall employment growth in the SMME sector between 1995 and 1997, while the bulk of private sector employment growth resulted largely from the expansion of large enterprises.

According to Kesper (2001:177, cited in Rogerson, 2004d:770), it is evident, ... *from a range of recent research investigations that the bulk of employment creation by South African SMME's is likely to emerge from new micro-enterprise formation.* This finding was reinforced by the World Bank's detailed investigation in Johannesburg, which showed conclusively that net employment growth in the SMME economy was accounted for by the arrival of new firms (Chandra *et al.*, 2001). The high rate of new enterprises in the SMME economy since 1994 points to the clear conclusion that micro-enterprise and the forming of very small firms and not the expansion of existing SMME's accounted for the overall employment growth in the SMME sector (Berry, *et al.*, 2002:27).

This view is supported by the GEM (2001:49) who are of the opinion that new firms (businesses that have paid salaries and wages for more than three months but less than three-and-a-half years) are more likely to contribute to growth and job creation than start-ups (businesses that have not yet paid any salaries or wages, or have paid salaries and wages for not more than three months).

Once a start-up begins to have an impact on the economy in terms of paying wages, it quickly graduates to being a new firm. The impact of entrepreneurial activity on economic growth is largely via those firms that survive to become new firms and continue to grow thereafter.

On the basis of predictions from new firm entrepreneurs who were surveyed, GEM (2001) estimate that up until the year 2006, 156 000 jobs a year can be created. Furthermore, the lion's share of the job creation will come from a small number of growth-oriented new firm entrepreneurs.

In response to the challenges set out in the White Paper, (1996), the Centre for Small Business Promotion (CSBP) of the DTI and the National Small Business Council (NSBC) as well as the Ntsika Enterprise Promotion Agency (Ntsika) and Khula Enterprise Finance, were all established to drive the National Small Business Strategy. (See Annexure 3 for a list of available programmes and support).

However, according to Berry *et al.*, (2002:35), indications are that, despite their good intentions, these policy measures suffer from sub-optimal implementation due to a general distrust of external agencies by SMME's on the one hand, and the incapacity of support institutions to persuasively raise awareness about their existence and effectiveness on the other.

Furthermore, on studying Annexure 3, it becomes clear that support is mostly aimed at medium to large enterprises in the form of finance for expansion projects. There seems very little monetary support for start-up and micro business.

This view is supported by Pretorius and Van Vuuren (2002:15) who comment that economic incentives do not favour SMME's and that the core focuses of Government programmes, as promulgated through Khula, IDC and DTI, include finance, growth, expansion and competitiveness (through export) that are more relevant for existing businesses than for start-ups. The programmes focus on the larger and existing ventures and very few are aimed at micro and small businesses.

If this also happens in the Southern Cape, it becomes important to establish the reasons why, in order to develop a strategy of development appropriate to this area.

Dockel (2004:58) observes that the entrepreneurial support strategies have not necessarily failed, but are rather an indication that the problem is more complex than originally thought. He advocates an approach which identifies specific kinds of businesses with growth potential and formulates policies specifically targeting these businesses.

Acknowledging the fact that the situation of SMMTE's in South Africa is similar to that of SME's in general, it is worth noting the findings of the Global Entrepreneurship Monitor (GEM, 2003). Its major findings and policy recommendations are as follows:

- By international standards, developing countries have above average total entrepreneurial activity rates. However, in South Africa, total entrepreneurial activity rates are nearly 50% lower on average than in other developing countries included in the GEM over the period 2001 to 2002. This is independent of firm type. Compared to other developing countries, South Africa is losing out on substantial employment and growth opportunities as a result of lower entrepreneurial activity rates.

Policy implication –

Attempts to influence the prevalence of entrepreneurship in a country should take into account the perceptions and levels of entrepreneurial skills within particular target groups. Programmes which seek to encourage entrepreneurship need to be carefully customised to meet the particular needs of a target group.

- Total entrepreneurial activity rates vary significantly across regions.

Policy implication –

Models of supporting entrepreneurship in rural and urban areas are likely to be very different. Policy makers need to take cognisance of the fact that in

rural areas, in the absence of access to basic infrastructure, markets and key resources such as land, individual-focused models of support are unlikely to prove cost-effective or sustainable. It is likely that rural entrepreneurial support programmes will need to develop community-based models which simultaneously address these key limiting factors. In general, there appears to be considerable diversity in regional patterns of entrepreneurship. These warrant further investigation and also suggest that regions could learn from each other in developing ways of promoting entrepreneurship.

- Shortage of cash appears to be a persistent problem for many firms. Older and larger firms are no less likely to have exhausted their overdrafts than younger or smaller firms. Inadequate financial management practices among these entrepreneurs are a major threat to the financial health and survival of firms in this sector.

Policy implications –

In isolation, additional external finance is unlikely to address the underlying managerial weaknesses or the cash shortages in these firms, except in the short-term. On its own, additional preferential contacts through empowerment procurement policy is also unlikely to address the underlying managerial weaknesses and may, indeed, endanger the survival of some firms by further weakening their cash position. There is a strong case for placing priority on addressing underlying managerial weaknesses by improving the administrative and financial management capabilities of entrepreneurs in this sector.

According to Damane (2003) the Department of Trade and Industries (DTI) would have released, late 2004, a refocused strategy for SMME developed to replace the policy approach that has been in operation since 1994.¹⁰

The reasons for this, according to Rogerson (2004e:766), are the disappointments that have arisen from the implementation and outputs of the post-1994 programmes.

¹⁰ At the time of writing, this had not yet taken place.

3.6.10 Previously disadvantaged communities

A particular focus of GEM South Africa (2002) was on entrepreneurs from disadvantaged communities. Effective support for disadvantaged entrepreneurs requires appropriate segmentation of these entrepreneurs and better understanding of the constraints facing entrepreneurs within each segment.

From an analysis of the differences between disadvantaged entrepreneurs in the formal and informal sectors, GEM South Africa (2002:5) found:

- Entrepreneurs in the informal sector (those with unregistered businesses) account for 88% of all businesses in disadvantaged communities. Entrepreneurs in the formal sector (those with registered businesses) account for the remaining 12%.
- Informal entrepreneurs on average employ 0,8 people whereas formal entrepreneurs on average employ 7.2 people. Formal businesses account for 56% of all employment in privately owned businesses in disadvantaged communities.

There are significant differences in the constraints on formal and informal entrepreneurs in disadvantaged communities. Consequently, more effective targeting of support and resources for these two groups of entrepreneurs is required to ensure that appropriate business support is accessible and properly focussed on their respective needs.

From an Investigation of the role of Black Economic Empowerment (BEE) in tourism, Rogerson (2004a:86) reports as follows:

National government considers that SMME's that are *operating in the tourism sector, both directly and indirectly, are expected to make a substantial contribution to poverty alleviation and to black economic empowerment* (DEAT 2003: 37).

In seeking to promote transformation, the government has identified the following initiatives:

- Firstly, those that relate to **identifying and promoting tourism sub-sectors** in which black entrepreneurs potentially have a competitive advantage. Examples include indigenous cultural villages, township tourism, cross-border or regional tourism and eco-tourism.
- A second suite of interventions relate to the **improvement of infrastructure** in areas of perceived untapped tourism potential. The provision of infrastructure as a means to “de-bottleneck” investment opportunities in areas of tourism potential was a critical element of South Africa’s Spatial Development Initiative (SDI) programme (Rogerson, 2004a: 86-88).

To address the supply side of SMMTE’s, the Department of Environmental Affairs and Tourism (DEAT) has put forward new proposals for supporting individual SMME’s in tourism. The most important and innovative initiatives have taken place through the private-sector funded Tourism Enterprise Programme (TEP). The objective of the TEP is to assist small businesses involved in the tourism industry to expand and create linkages with larger established enterprises. The TEP offers an integrated support package comprising training, market linkages, mentorship assistance and access to affordable finance (Rogerson 2004b:89).

The question as to what degree these initiatives are getting through to local tourism-related SME’s is raised.

3.6.11 Shortcomings

Berry *et al.*, (2002:50) identify the following three areas of concern that influence the growth prospects of SMME’s in general:

- *The labour market.* Several of the challenges faced by the SMME sector in South Africa involve the need to increase the level of human capital and to ensure its effective allocation among potential users. The role of labour, labour markets and skills levels are probably the most important contributors to SMME growth.

- *The capital market.* There are strong reasons to believe that the demand, credit worthiness and supply functions take very different forms depending on the segments of SMME's. It is important for policy-makers to recognise this multiplicity and to adopt several "target-group focused" approaches rather than a single approach designed to resolve the financial issue in general.

Typical factors explaining market failure on SMME financing all over the world are:

1. risk ceilings of financial institutions,
2. lack of information and credit records,
3. lack of skills and experience when applying for loans, and
4. transaction costs being too high for the size of the loan.

Factors specific to previously disadvantaged communities include:

5. lack of valuable collateral, and
 6. cultural barriers.
- *The product market.* Access to product markets is a critical component of a competitive economy. Entry to product markets naturally depends on the extent to which both regulatory and structural barriers are not biased against potential clients, and in particular small firms, in favour of incumbent or monopolistic firms.

In terms of South Africa, Berry *et al.*, (2002:72) identify the following problem areas which need to be addressed:

- insufficient entrepreneurship;
- lack of good business opportunities, for example due to lack of product markets;
- lack of business skills among the entrepreneurs;
- narrow capital base of the economy, for example low savings rates;
- information problems;
- fragmentation of the market;
- exclusion of certain categories (quite contrary to the redistribution value of SMME lending);

- quality of credit worthiness assessments and problem of misallocation of funds (to non-credit worthy firms); and
- pressure on interest rates due to the need for financial institutions to cover expected defaults and transaction costs.

The narrow capital base and the pressure on interest rates can only be addressed by Government at the national level, while the remainder of the identified problem areas could be directly or indirectly addressed at local levels by local or regional government.

With regard to the national environment for entrepreneurial activity, GEM 2003 states that, within the Global Entrepreneurship Model's nine entrepreneurial framework conditions, there is no reason to expect a weakness necessarily to have differential impacts on different segments of the population. There would, however, appear to be two likely exceptions: education and training, and cultural and social norms.

3.7 TOWARDS FORMULATING A STRATEGY FOR THE DEVELOPMENT OF TOURISM-RELATED SME's

Bearing in mind the main objective of this study – the formulation of a development strategy for small businesses operating in the tourism sector of the Southern Cape – it is perhaps prudent at this stage to determine what lessons have been learnt which should be taken into consideration in the formulation of such a strategy. This will be done at the end of each chapter.

The factors which have been identified are classified under the following headings: justification and measurement, overriding policies and direction, socio-cultural factors, support for SME's and, finally, factors causing failure and which should be avoided.¹¹

¹¹ Although identified in this chapter, most of these factors are visited again in later chapters where more detailed attention is paid to them.

3.7.1 Justification and measurement

- Entrepreneurship development as a facilitator of self-employment seems to be a potential strategy to help the marginal communities escape the poverty trap.
- The benefits of tourism via local development must be manifested by local employment generation and entrepreneurial activity.

3.7.2 Overriding policies and direction

- Policies which fail to take account of regional differences are less likely to succeed.
- To increase economic growth and employment creation, Government needs to enable a higher proportion of start-ups to progress to the stage of new firms.
- An approach should identify specific kinds of (tourism) business with growth potential, and formulate policies specifically targeting these businesses.
- Attempts to influence entrepreneurship should take into account the perceptions and levels of entrepreneurial skills within particular target groups.

3.7.3 Socio-cultural factors

- Factors such as attitudes and culture need to be considered (see Section 3.4.4).

3.7.4 Support for SME's

- It is necessary to provide regional business and management training tools for tourism entrepreneurs that address the needs of local entrepreneurs.
- Support of SMME's should focus especially on the formation of new businesses, since start-ups are responsible for the majority of jobs created.

3.7.5 Factors causing failure and which should be avoided

- Factors causing failure of SME's in the tourism sector are undercapitalisation, lack of management experience, poor planning, inadequate financial record keeping, lack of industry experience, failure to seek advice, and seasonal demand.

3.8 SUMMARY

The objective of this chapter was to determine the role of small businesses in the tourism industry and their contribution to regional growth and development. It has been established that development is the continuous and positive change in the economic, social, political and cultural dimensions of the human condition within the principles of freedom of choice and sustainability. It has further been established that the benefits of using tourism as a development tool can outweigh the disadvantages, especially in developing countries.

Notwithstanding the many benefits associated with tourism, this study is primarily concerned with the economic benefit of job creation through the development of SMMTE's which have been shown to play an important role in narrowing the gap between developed and developing countries. A table depicting considerations for appropriate and sustainable development was accepted as encompassing the requirements needed in any model that reflects tourism or tourism component planning and development. The factors **of sustainability and community involvement** are highlighted.

Small business and entrepreneurship are closely related and, in the absence of accurate figures concerning SMMTE development, SMMTE development is equated with that of **entrepreneurship development, which should be made a mandatory function of local government** (Bukula, 2000).

It has been established that the contribution of SME's to the GDP within the norms of developing countries is acceptable. Furthermore, the WTO's baseline forecast of tourism growth in South Africa augers well for the industry. However, government support packages have so far not favoured small to micro and start-up enterprises. Considering the recent launch of tourism targeted initiatives, the question is once again raised as to whether these programmes will filter through to the levels which need them most.

This mitigates in favour of a change in strategy from policies aimed at all categories of small businesses to policies aimed at specific business sectors.

Although the tourism industry is dominated by large capitalist firms operating according to the dictates of market competition, there still exists in developing countries **many opportunities for SMMTE's**.

Arising from these findings, a model for the development of tourism-related SMME's will have to take the following factors into consideration:

- the concept of "regionalism" (revisited in Section 5.5);
- sustainability and community involvement (revisited in Section 5.3.7);
- job creating opportunities;
- keeping "leakage" to a minimum;
- equating SMMTE development with entrepreneurship development;
- making entrepreneurship development a mandatory function of government;
- entrepreneurship support programmes are best designed and implemented by local authorities;
- the role of local culture;
- tailored regional business and management training;
- the influence of "seasonality";
- replacing general strategies and policies with strategies and policies that are targeted at specific business sectors; and
- local or regional government addressing the challenges of increasing the level of human capital, lack of business skills, information problems, and identifying business opportunities.

Chapter four will address the question of the future of SME's in the light of globalisation and an attempt will be made to identify international best practice.

Chapter 4

THE FUTURE OF SMALL TO MEDIUM TOURISM ENTERPRISES IN THE AGE OF GLOBALISATION

4.1 INTRODUCTION

According to Peters and Weiemair (2001:19) competition forces are presently changing the make-up, structure and functioning of the tourism industry towards a “new tourism”, subject to new forms of governance. However, Chapter three showed the positive correlation between tourism-related SME’s and development and their relationship with entrepreneurship. It was also discovered that opportunities still existed for SMTE’s in developing countries and in particular in the South African tourism industry. With this in mind, it becomes important to establish how these competitive forces and findings, referred to by Peters and Weiemair (2001), will impact on any attempt to develop SME’s, and to determine what are considered as international best practice in order to benchmark local SMTE’s.

Acknowledging the role played by tourism SME’s in the economic development of developing countries, this chapter attempts to determine whether SMTE’s can survive in fiercely competitive markets and still contribute to regional development.

The importance of this chapter lies in the fact that it identifies those international best practices which ensure the successful development of tourism related SME’s. Identified factors that are allocated to government intervention will be used in the development of a strategy for tourism-related SME’s in Chapter nine.

The objective of Chapter four is to determine if, in the light of globalisation, SME’s have any future (Objective No. 2).

The effects of globalisation on tourism-related SME's are discussed first. This is followed by the identification of critical success factors – international best practice – before highlighting those strategies which can be incorporated in the formulation of a strategy for the development of tourism related SME's.

4.2 SME's AND SMTE's IN THE AGE OF GLOBALISATION

The concept “Globalisation” was originally identified in 1983 by Levitt who argued that changes in technology, societies, economies and politics are producing “global villages” (Evans *et al.*, 2003;304). By this was meant that consumer needs in many previously separate national markets were becoming increasingly similar throughout the world. According to Evans *et al.*, (2003:304), not only markets but industries also are becoming more global.

In a generic sense, globalisation comprises three basic elements:

- First, there is the geographical side. The term covers intraregional and interregional travel, and the extension of tourism to a worldwide scale.
- Second, globalisation can be seen in terms of convergence in world tastes, product preferences, and life styles, which leads to growing standardisation and market homogenisation (a trend towards similar customer preferences worldwide).
- A third basic element is the existence of internationally similar practices around the world, such as distribution systems, marketing practices and product development.

(Heath, 2001: 543).

Another term often used together with that of globalisation is “trans-nationalism”. Trans-national companies are usually large and they have direct investments in one or more foreign countries. A trans-national company will have a high degree of coordination in its international interests. It will usually have a strategic centre, which manages the global operation such that all parts act in accordance with a centrally managed strategic purpose (Evans *et al.*, 2003:304).

4.2.1 The effects of globalisation

Go (1997) points out that globalisation exerts strong influences on the direction of the economy of developing countries, on tourism development which takes place in and around host communities, and on the evolution of small entrepreneurs in such countries.

As the effects of globalisation and trans-nationalism seep through the tourism industry, key questions that face entrepreneurs are:

- What are the barriers to growth and survival for small entrepreneurs in a shifting market?
- To what extent can small entrepreneurs contribute value to the tourism industry in developing countries in order to survive and prosper?
- How can small entrepreneurs co-exist with trans-national corporations which increasingly dominate not only the industry, but also the service sectors?

The newly constituted competitive advantage within a novel competitive environment is only sustainable in an entrepreneurial climate and environment providing a vision, leadership and appropriate organisational structures and processes which, ultimately, can supply desired customer-oriented problem solutions and/or customized tourism experiences (Pine & Gilmore, 1999, cited in Peters & Weiemair, 2001:24).

Peters and Weiemair (2001:27) distinguish between what they refer to as “life-style” small businesses (set up to provide owner managers with an acceptable income at comfortable levels of activity), and “entrepreneurial” small businesses (driven by growth motives). Acknowledging the existence of both types of small businesses, they question the ability of the former category to survive in light of modern day globalisation and trans-nationalism. In order for the “entrepreneurial” small business to survive it will have to successfully face the following challenges:

- Integration of market-based and resource-based views. The integration of market and resource-based management means both market and trend orientation and use or development of necessary resources within the

enterprise. This so-called management of core competencies is a basic requirement in the new tourism economy.

- The use of new information and communication technologies (ICT): Organisations will undertake reconfiguration as their boundaries are stretched by cost-effective IT communications between customers, suppliers and firms. Thus IT is at the root of the “intelligent enterprise”, feeding the process of creating and recreating employee’s capabilities to seek, build, use and share knowledge in order to create superior services.
- Accessibility of venture capital.
- New forms of leadership. Gradually, the tourism industry experiences the rise of a new type of entrepreneur who is less operation-oriented and more strategy-oriented, assumes calculated risks, is on average better trained and/or experienced, more oriented towards problem-solving and assumes more up-to-date styles of leadership.
- Restructuring organisations and governance. Organisational forms and governance have become the new factors of competitive advantage. “Network organisations” (e.g., as cooperative partnerships, strategy alliances, confederation of locally allied partners, management contracts, franchising, etc.) remains the most viable form of organisation for the delivery of complex service bundles to a “multi-option” consumer (the tourist).
- Ecological changes. Small business entrepreneurs in tourism will stand a good chance to thrive in the future if they innovate and invest in know-how and software and/or follow new paths of sustainable management. This is particularly true for a number of high quality, environmentally friendly and less price-sensitive market niches and products such as eco-tourism, special interest tourism, and health and wellness tourism.
- Women entrepreneurship (and in the case of South Africa, of previously disadvantaged individuals).

Bianchi (2002:280) argues that economic globalisation has brought about increased levels of industrial concentration amongst a few globally integrated trans-national tourism corporations (TTC’s). Furthermore, the power of

predominantly Western-based TTC's is more entrenched (for example, the structure of the global airline industry and the concentration of ownership in the European tour operator sector).

Bianchi (2002:280) is of the opinion that, rather than precipitate a flourishing of independent networked enterprises, the evidence suggests that deregulation and economic globalisation has strengthened the asymmetrical structures of corporate control in tourism. Moreover, the adoption and monopolisation of (costly) distributional technologies by mega-corporations have reinforced the growth of industrial concentration and trans-national corporate power while, at the same time, enabling those same globalised firms to provide individually tailored products to their clients.

It is probably because of this bleak future for small business operating in the tourism industry that several authors (Dahles & Bras, 1997; Rodgerson, 2001) have been prompted to identify various market niches in which small-scale tourism businesses could compete. They are:

- Provide services which lie outside commercial interest of dominant sector firms (e.g. handicrafts and small-scale transport services).
- Attempt to provide services similar to those offered by dominant sector firms, but of a lower quality and limited appeal (e.g. budget accommodation, localised tours, village organised tourist attractions and the retailing of cheap souvenirs).
- Provide services which compliment tourist services and attractions controlled by dominant sector enterprises (e.g. shopping guides, local guides, dance groups for tours, hotels and cultural display centres).

As a result of the previously mentioned effects of globalisation and trans-nationalism on SMMTE's, entrepreneurs, characterised by innovation, will have to adapt in accordance with these effects to ensure survival. Furthermore, if government policy is the creation of SMMTE's and concurrent job growth, then strategic (National, Regional and Local) intervention by government in the tourism industry is mitigated.

4.2.2 International overview

Realising the lack of information regarding SMMTE's internationally, the Association for Tourism and Leisure Educators (ATLAS), in 2003, commissioned a special interest group to undertake an international review of SME's in tourism (ATLAS, 2004). Nine leading tourism oriented countries were surveyed. Table 4.1 provides a summary of the most important observations made by the nine countries which took part in this study.

From the table it can be seen that the tourism industry comprises a large number of SMME's that are acknowledged by the majority of participants as important to the industry. Despite this importance, very little credible statistical information concerning SMME's is available. Although there exists a wide range of government policy guidelines as to the development of SMME's and some countries acknowledge the need for entrepreneurship development as a means to achieving these policy objectives, little research has been done in this field and research does not seem to be widely encouraged and supported by government authorities. Policy objectives would seem to concentrate on demand side considerations as opposed to supply side considerations.

Table 4.1: Report observations

Observations	A U S T R A L I A	F I N L A N D	H U N G A R Y	I R E L A N D	N E W Z E A L A N D	N O R W A Y	S O U T H A F R I C A	S W I T Z E R L A N D	U N I T E D K I N G D O M
Large number of SME's in the tourism industry	x	x	x	x	x	x	x	x	X
Acknowledge the importance of SME's	x	x		x			x		X
Lack of credible data concerning SME's	x	x		x			x		
SME's operating in the informal sector			x				x		
Lack of research done on SME's	x	x	x	x	x	x			
Funding available for academic research on SME's		x			x				
Recognise the need for entrepreneurial development			x		x		x		X
SME's face problems of competitiveness	x							x	X
Existence of wide policy guidelines from government	x	x	x	x	x		x	x	X
Policy focus on demand rather than supply				x					

Telisman-Kosuta and Ivandic, (2004:222) express the opinion that some of the most significant challenges faced today by small and medium tourism and hospitality businesses have to do with management, marketing, human resources, productivity and finance:

- Management in small firms is primarily adaptive with emphasis being placed on adjusting as quickly as possible to current demand in order to gain maximum immediate, short-term benefits.
- Few small hospitality businesses have formal marketing strategies expressed in form of a marketing plan and they lack the resources, both in terms of financial funds and know-how, to overcome problems of market access, independent distribution and branding inherent to small and dispersed companies (Keller, 2001; Kohl, 2001; Page *et al.*, 1999, cited in Telisman-Kosuta & Ivandic, 2004:222).
- Studies have further shown that the hospitality industry in general is relatively lax in employee development and training, with the situation in small and medium hospitality enterprises being even worse (Beaver and Lasley, 1999 cited in Telisman-Kosuta & Ivandic, 2004).

It can be argued that tourism and hospitality SME's are at a disadvantage because of their size. Being not only small but also dispersed, they do not enjoy the benefits of economies of scale – a situation that, in conjunction with seasonality of the tourism business, results in low levels of productivity. Financial problems are further exacerbated by banks which consider SME's high-risk and low-profit ventures, meriting intense credit scrutiny, and quite likely, high interest rates (Telisman-Kosuta & Ivandic, 2004: 222).

4.2.3 The future of tourism related SMME's

4.2.3.1 Difficulties encountered

Keller (2004:10), observes that it is increasingly difficult for SME's to survive and prosper in markets where competition is fierce. Their survival strategies make it difficult to change, adapt and innovate. Furthermore, their potential for

rationalisation is limited due to their small size and the highly personalised nature of their services. On the other hand, larger tourism companies are able to take advantage of their size to penetrate and dominate new tourism markets. Standardised products and services enable them to keep costs down and increase profits. High economies of scale make it possible to increase productivity and growth.

The economic situation of destination-dependent SME's can only improve, Says Keller (2004:14), by offering services in partnership with others and marketing these as a package. Mutual cooperation is vital for the positioning and marketing of the services offered by SME's. It is also a way for these companies to increase productivity and bring down costs.

New factors of competition and globalisation have caused small and medium sized tourism enterprises to make major changes in their core business, products and services, as well as in their organisational structure, focusing on maintaining a competitive position (Galbraith, 1991, cited by Weiermair & Kronenberg, 2004:133). Thus, entrepreneurial skills and the use of new forms of management techniques are necessary to achieve a competitive position.

4.2.3.2 Strategies for improvement

The following strategies are identified for SMMTE's to improve their competitive position:

- New forms of leadership: SMMTE's require the rise of a new type of entrepreneur who is less operation – and more strategy – oriented.
- Change management: The necessity to manage employees in times of internal and external change is emphasised.
- Cooperation / Networks: Cooperation and networks can increase specialisation and flexibility in the production and marketing of tourism services. A balance should be found between cooperation and competition in the local destination.

- Differentiation / Focus strategy: Differentiation encompasses the creation of a product or service that is perceived to be unique. Focus refers to the idea of serving a particular target market by addressing the customer's specific needs.

4.2.3.3 Challenges

Telisman-Kosuta and Ivandic (2004:223) argue that the key questions facing the tourism and hospitality SME sector today is how to integrate – within the hyper-competitive framework of a globalised economy – the entrepreneurial innovative spirit with formalised management procedures, thus ensuring stability without stifling creativity.

According to Go (2004:292) the major challenge for SME's is to understand where along the chain of tourism activities to add value to enhance the customer experience and take out non-value adding activities. The real leap, however, is to connect the bits like travel agents, airlines, ground services, taxis, hotels, etc., into new, co-evolutionary virtual organisations, wherein the “co-opting of customer competence” plays a central role in new business practice. In such a network-centric paradigm, modular components would be “coupled” and “de-coupled” according to customer needs, opportunity and economic criteria.

Although the significance of new firms in job creation is acknowledged, Wanhill (2000:135) points out that many tourism SME's are family enterprises which display ... *low levels of capital investment, weak management skills, and resistance to advice or change, as to cause barriers to successful tourism development.* He adds that the solution to difficulties of this kind, that tends to be adopted by government agencies, is to identify good practices that can be held up as exemplars. Action is then taken to try and upgrade standards through benchmarking, sharing best practice, providing financial support, and investing in the skills of the labour force.

Considering the above arguments, it can be deduced that there is a future for SMMTE's **provided** they comply with certain criteria and follow certain strategies.

In the next section an attempt is made to identify what these strategies and criteria might be.

4.3 INTERNATIONAL BEST PRACTICE

4.3.1 International best practice - Location as a factor

A new economic system is identified by Audretsch and Thurik (2001:11), which they term “the entrepreneurial economy”. This system has emerged following the “managed economy”, primarily because of the effect of globalisation. They name the two fundamental aspects of globalisation as the advent of low-cost but highly skilled competition in Central and Eastern Europe as well as in Asia, and the telecommunications and microprocessor revolution which has greatly reduced the cost of moving standardised economic activities out of high-cost locations such as Europe, and into low-cost locations elsewhere in the world. Audretsch and Thurik (2001:12) list 14 trade-offs which are manifestations of a shifting source of competitive advantage away from capital and labour towards knowledge-based economic activity, two of which are important to this study:

- Localisation versus globalisation. Production in the managed economy results from the inputs of land, labour and capital. In the entrepreneurial economy, knowledge has emerged as the most important factor of production. This knowledge tends to be developed within localised production networks embedded in innovative clusters.
- Local policy versus national policy. Under the managed economy, the appropriate locus of policy-making is at the National or Federal level. By contrast, under the entrepreneurial economy, the locus of government policy towards business tends to be decentralised and regional in nature.

Support for this viewpoint comes from Yamawaki (2003:203) who found that the drivers and advantages of industry location in Japan was consistent with those found in the United States by Porter and those found in Europe by Krugman. Distinctive Japanese elements were, firstly, the ways in which Japanese firms organise their business activities and, secondly, the ways in which the local

government promotes local clusters. (Clusters are discussed in more detail in Section 4.3.3).

The importance of location is further highlighted by Porter (2003) who argues that location has a positive influence on both competition and competitive advantage.

4.3.2 International best practice - Encouraging linkages

Grieson and Mead (1996, cited in Rogerson, 2001:110) offer “linkages” as a possible solution to be considered by developing countries. Business linkages enable SMME’s run by indigenous or local entrepreneurs, to participate in the dynamic segments of a growing market economy. Advantages of linkages are:

- reducing market friction and its resulting costs;
- allowing firms to maintain a greater degree of flexibility than would otherwise be possible;
- improving skills and facilitating the diffusion of technology; and
- facilitating the sharing of market information.

(Grieson & Mead, 1996, cited in Rogerson, 2001:110)

Successful linkages require that a number of basic components must be in place. These are:

- Opportunities: Those giving contracts (the buyer in the linkage relationship) must be able to recognize profitable opportunities and determine when it is in their interest to enter into long-term contracts.
- Information: Essential for successful linkages. The more those potential partners know about each other, the more likely it is that they will make an informed business linkage decision.
- Capacity: it is critical that the enterprise engaged in supplying the goods or service have the capacity to fulfil obligations, and to meet the client’s requirements in terms of quantity, quality and timeliness.
- Capital: It is critical that finance be mobilised in order to enable business to take advantage of available opportunities.

(Grierson & Mead, 1996, cited in Rogerson, 2001:111)

Rogerson (2001:112) concludes that:

... unless deliberate policy interventions are made to counter the power of large enterprises and/or to foster positive linkages with SMME's, the best prospects for SMME development appear to lie in the arena of alternative tourism, including eco-tourism. In South Africa's SDI programme, pro-active promotion of business linkages between large enterprises and the SMME economy offers promising avenues for a policy development framework for investment-led entrepreneurship that links either to mass or alternative tourism forms.

4.3.3 International best practice – Clusters

4.3.3.1 Clusters defined

Clustering is referred to by Tambunan (2005:138) as a common economic phenomenon. A cluster can be defined as a local agglomeration of enterprises producing and selling a range of related or complementary products within a particular industrial sector or sub-sector.

In order to obtain competitive advantage, many small businesses apply the strategy of forming clusters. Clusters are geographic concentrations of interconnected companies, specialised suppliers and service providers, firms in related industries, and associated institutions in particular fields that compete but also cooperate.

The view of Porter (2003:163) is *... the configuration and the role of clusters seem to be taking on a new character as competition globalizes and economies become increasingly complex, knowledge-based, and dynamic.*

The presence of clusters suggests that much of a competitive advantage lies outside a given company or even outside its industry, residing instead in the locations of its business units.

Porter (2003:165) observes that most cluster participants do not compete directly, but serve different industry segments. Yet they share many common needs and opportunities and encounter many common constraints and obstacles to productivity. Seeing a group of companies and institutions as a cluster highlights opportunities for coordination and mutual improvement in areas of common concern without threatening or distorting competition or limiting the intensity of rivalry. The cluster can offer a constructive and efficient forum for dialogue among related companies, their suppliers, government and other salient institutions. Furthermore, the sophistication and productivity with which companies compete in a location is strongly conditioned by the quality of the micro-economic business environment. Firms located within a cluster are more likely to attain competitive advantage, both in terms of operational effectiveness and types of strategies.

4.3.3.2 *Competitive advantage through clusters*

According to Porter (2003:169) clusters influence competition and competitive advantage in three broad ways:

- By increasing the (static) productivity of constituent firms or industries which can be achieved by applying the following factors:
 - i. Access to specialised inputs and specialist employees.
 - ii. Access to information and knowledge.
 - iii. Complementarities. In tourism, for example, the quality of the visitors' experience depends not only on appeal of the primary attraction but also on the comfort and serviceability of area hotels, restaurants, souvenir outlets, airports and other transportation facilities.
 - iv. Access to institutions and public goods.
 - v. Incentives and performance measurement.
- By increasing their capacity for innovation and thus productivity growth. A firm within a cluster is prone to be more productive.
- By stimulating new business formation that supports innovation and expands the cluster. Operating within a cluster provides inducement to enter the industry through better information about opportunities, and barriers to entry are lower than elsewhere.

4.3.3.3 *Applicability to tourism*

Although the “Diamond” model of National Competitive Advantage (Porter, 1990) was originally focused on manufacturing, Hopkins (2001:65) is of the opinion that it may also be applied to the predominantly service based industry of tourism.

Hopkins (2001:63) describes Porterian clusters as ... *constellations of firms in related, supporting industries that are internationally competitive manufacturing industries*. Firms within the clusters are interdependent due to value chain links through common technologies, inputs, customers, infrastructure or distribution channels.

Support for this viewpoint comes from Vanhove (2004:113) who states that competitive advantages of a (tourism) destination emerge in a dynamic system consisting of four interdependent determinants, which together form Porters “Diamond” (see Figure 4.1). These determinants are:

- Factor conditions: The destinations competitive position in factors of production necessary to compete in the tourism industry.
- Demand conditions: The nature of (home) demand for tourism products and services.
- Related and supporting industries: The presence or absence in the region of supplier industries and related industries.
- Firm strategy, structure, organisation and rivalry: The conditions in the nation (destination) governing how companies are created, organized and managed, and the nature of (domestic) rivalry.
- Two additional variables: Chance and government can influence the system in important ways and are necessary to complete the theory.

The “Diamond” is a mutually reinforcing system where the effect of each determinant is dependent on the state of the others, consequently influencing and impacting on local SME’s.

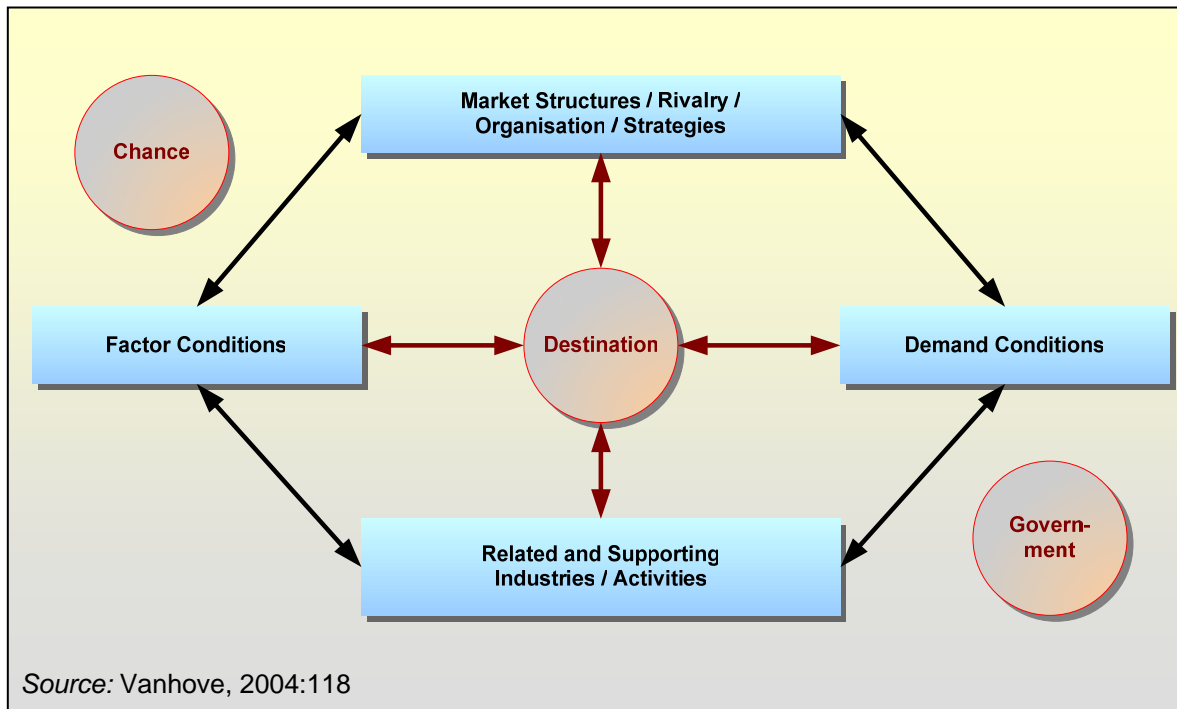


Figure 4.1: The determinants of competitive advantages of destinations

4.3.3.4 Agglomeration of clusters

According to Hopkins (2001:63) tourism clusters often agglomerate because of inherited factors such as a common draw card, like, for instance, the Great Barrier Reef. Examples of geographic clustering in tourism are wine production and wine-tourism in Southern Australia, or the clustering of golf courses, to the South-east of Melbourne.

In present day South Africa there is considerable activity surrounding the development of “route tourism”, which involves linking together the tourism resources of a number of smaller centres and collectively marketing them as a single region (Rogerson, 2004b:63). Examples of “route tourism” include Route 62, the Wine Routes in the Western Cape and the Whale Route in the Overberg region of the Western Cape. Rogerson (2004b:63), concludes that it is evident from the South African experience that route tourism offers a promising potential vehicle for local economic development in many small towns and rural areas. The clustering of activities and attractions through the development of tourism routes

stimulate co-operation and partnerships as well as catalysing entrepreneurial opportunity.

Furthermore, factor conditions, demand conditions, a firm's strategy, structure, and rivalry, and related and supportive industries all contribute to the production of “**complementarities**” between firms competing directly in the industry. The “**co-optition**” concept identifies the importance of “complementarities” that occur within both competition and cooperation between firms.

4.3.3.5 Diagonal clustering

Hopkins (2001:66) uses the concept of **diagonal integration** to describe the strong **diagonal value chain relationships** that occur in the tourism industry between a range of services such as travel agents, package tours, corporate account management, insurance, currency exchange, traveller's cheques and credit cards. Diagonal value chain relationships arise when products are developed not through horizontal or vertical integration but rather based on informal relationships generated from communication and networking resulting from the co-location of the various firms.

This concept of diagonal value chain relationships is used to create a framework of **diagonal clustering** where value is created via:

- horizontal aspects of firms within the industrial value chain, creating value arising from competitive forces;
- vertical aspects of firms within the industrial value chain, creating value arising from competitive forces;
- creating an ethos of co-opetition arising from competitive-cooperative complementarities and synergy;
- Porterian rivalry between firms, along with the vertical and diagonal benefits arising from related and supporting industries; and
- a reduced potential for monopolistic behaviour arising out of regional clusters.

Proximity advantages arising from such diagonal clustering create complementarities that may lead to product improvement based on “close” working relationships, ongoing exchange of ideas and innovations.

The benefits associated with “diagonal value chain relationships” and “diagonal clustering” are of particular importance to regional development planners within the age of globalisation.

4.3.3.6 Other models which enhance competitiveness

In his analysis of competitive advantage, Vanhove (2004:113) makes use of two more models which enhance competitiveness and have a direct or indirect link to SME's. They are Poon's four strategies, and the conceptual model of destination competitiveness of Ritchie and Crouch.

Poon (1993) identifies four strategies that tourism destination's (read SME's) need to enhance the development of new and sustainable tourism. They are:

- putting the environment first;
- making tourism a lead sector;
- strengthening distribution channels in the market place; and
- building a dynamic private sector.

These strategies all impact on the establishment of a strong SME and entrepreneurial sector.

Vanhove (2004:113), observes that the central theme to the conceptual model of Ritchie and Crouch is the supposition that a destinations success is determined by two different kinds of advantage: Comparative advantage and Competitive advantage.

Comparative advantage reflects the resource endowments of the destination, provided either by nature or by the overall society within which the destination resides (human resources, physical resources, historical and cultural resources, knowledge capital, infrastructure and tourism super-structure).

Competitive advantages are those advantages which have been established as a result of effective resource deployment (maintenance, growth and development, efficiency, effectiveness and audit).

4.3.3.7 The South African tourism cluster

Reporting on the South African tourism cluster, the Tourism Cluster Consortium (TCC) (1999:40), makes use of two analytical tools. The first tool, widely used in understanding an enterprise cluster, is the “Cluster Map”. This analytical tool outlines the entities participating in the cluster, and the linkages between them. It is used to identify how complete or incomplete the cluster is in terms of the direct and indirect suppliers, and critical economic infrastructure. South Africa’s composite tourism cluster is composed of many elements – ranging from the principal tourism attractions, to the suppliers of direct and indirect services and products, to the soft and hard infrastructure that enables the system to function. Figure 4.2 identifies the key elements of the tourism cluster.

The second important tool is the “Competitiveness Diamond”. Clusters operate and succeed or fail in the context of a competitive environment. One of the critical advantages of looking at economic activity this way, is that clusters allow for companies and entities within a sector or region to cooperate **and** to compete.

In tourism clusters the quality of the visitor’s experience depends not only on the appeal of the primary attraction but also on the quality and efficiency of the complementary businesses such as hotels, restaurants, shopping outlets, transportation, etc. Good performance by one drives and promotes the success of the others (TCC, 1999:43).

With reference to the South African Cluster Map (Figure 4.2), the TCC (1999) arrives at the following conclusions relating to South Africa’s tourism cluster in so far as it applies to this study:

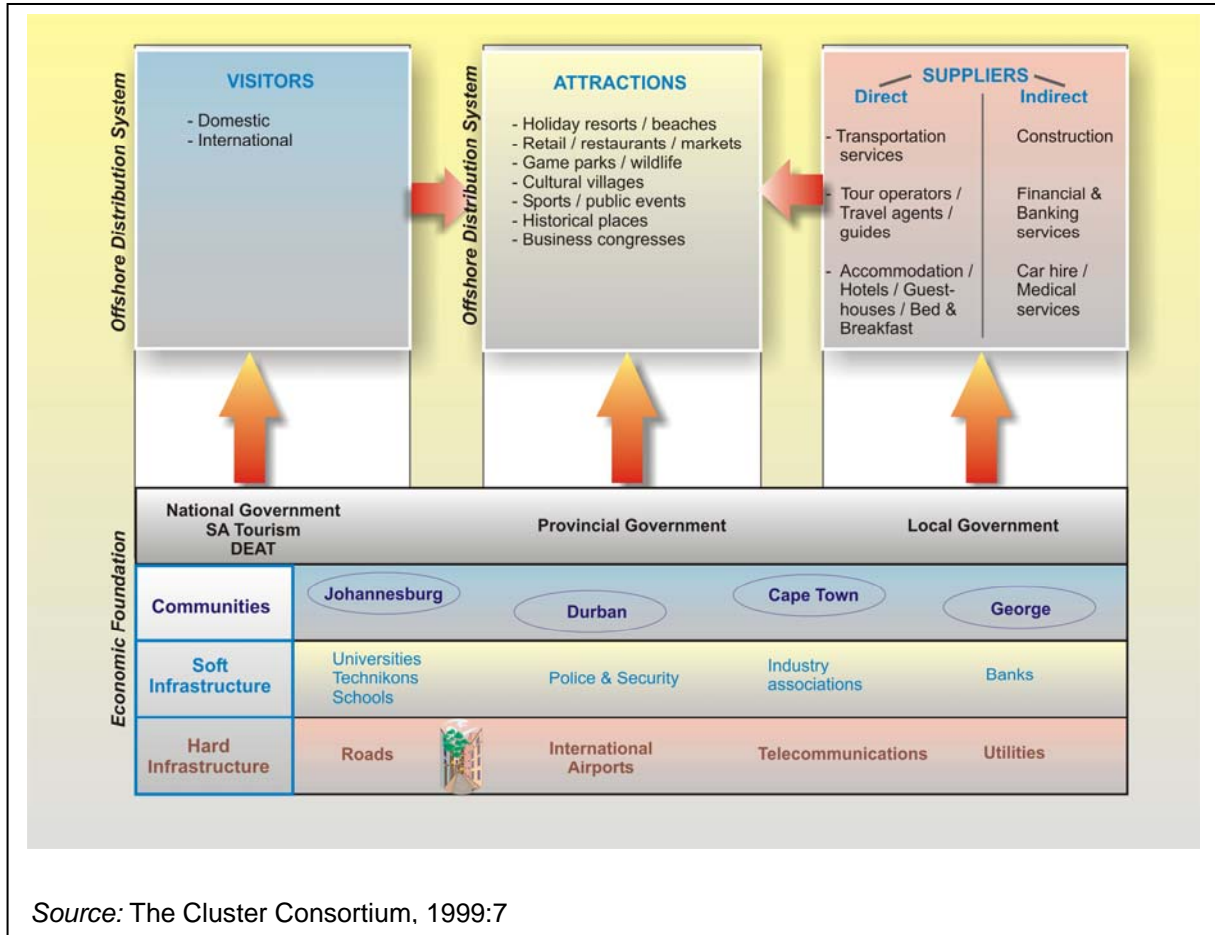


Figure 4.2: South Africa Cluster Map

- Cluster linkages – Collaboration among tourism component providers, tour operators, travel agents and private service and infrastructure providers around specific package offerings is relatively weak. Trust, communication, and coordination are lacking.
- Business climate for tourism – Currently, growth in new tourism business and entrepreneurship is still lagging below levels achieved in other countries. Also, the growth engines for entrepreneurship are sorely underdeveloped.
- Human resources – The South African tourism industry is currently marked by a limited skills base of tourism management personnel, as well as a shortage of well-trained, tourism-friendly workers.

Referring to the Competitiveness Diamond (See Figure 4.1) the TCC arrives at the following conclusion about South African tourism as far as it relates to this study:

Cluster strategy, structure and rivalry ... *supporting industries to the South African tourism cluster are generally regarded by industry leaders, both public and private, to require further development and integration to achieve either satisfactory or optimal levels, particularly as they relate to product development, delivery and marketing. South Africa's tourism industry currently experiences varied but escalating levels of rivalry in key sectors (for example, generally high in accommodation, transportation, and travel agency sectors, low among tour operators, etc.)* (Tourism Cluster Consortium, 1999:54).

The shortcomings in the South African Tourism Cluster that are pointed out by the TCC, will be addressed in the model which will be developed in Chapter nine.

4.3.4 International best practice - The role of alliances

Within an environment characterised by globalisation, an important strategy often used is that of alliances. Evans, Campbell and Stonehouse (2003:250) define a strategic alliance as a particular horizontal form of inter-organisational relationship in which two or more organisations collaborate, without the formation of a separate independent organisation, in order to achieve one or more common strategic objectives.

Alliances may provide some of the key success factors associated with regional tourism. Alliances such as joint ventures, franchises or common marketing agreements are based on varying degrees of integration or cross-ownership and/or control. Strategic alliances may be created from horizontal integration between firms or public institutions within the same level of the industry. (Airlines now have equity based on non-equity based strategic alliances on a global scale. Horizontal integration occurs in travel agencies, usually in the form of takeovers or mergers).

Alliances also have vertical integration (backward and forward) components that lead to increased control of the industry's value creation process. (Tour operators integrate forward into retail distribution, marketing and sales, but not into charter airlines or hotels. Airlines integrate forward into marketing, sales, tour packages

and charter flights but do not build their planes or airports) (Poon, 1993, cited in Hopkins, 2001:62).

An example of a region using alliances, is that of Tourism Victoria who, to facilitate the promotion of a diverse range of tourism products and services, created a series of broad but marketable product-regions. A key component of the Victoria tourism strategy is the requirement to develop strong networks and alliances with various tourism stakeholders in each of the product regions (Hopkins, 2001:61).

Strategic alliances are driven by competition in the long-term wider global market. *Alliances are not tools of convenience. They are important, even critical instruments of serving customers in a global environment* (Ohmae, 1989, cited in Hopkins, 2001:63).

4.3.5 International best practice – Cooperation as a strategy

In their discussion of the strategic options open for small hotels in Croatia, Telisman-Kosuta and Ivandic (2004:224) advocate a form of cooperative strategic alliance for small hotel operations, and point out that, along with the concentration tendencies among the big hotels, tour operators and car-rental firms, there is, in fact, a parallel trend taking place although, unlike the mergers and acquisitions among the big players, concentration in the SME sectors is taking place in the form of partnerships and strategic alliances.

This SME cooperation can be in the form of partnerships or strategic alliances that are horizontal (i.e., across the same branch, such as hotel accommodation), vertical (i.e., integrating complementary businesses jointly responsible for producing a quality product), or lateral (integrating diverse businesses involved in tourism).

4.3.6 International best practice – Networking

Network theory, as applied to the business world, views businesses as spatial nodes and the interaction between them as linkages (Copp & Ivy, 2001:345).

The survival of a business, particularly a small one, can be greatly aided by interaction with and the support of other entities (called networking). In the business environment, ... *the network is a group of two or more firms that have banded together to carry out some new business activity that the members of the network could not pursue independently* (Sommers, 1998:54).

Collaborative business networks can be seen as a form of competitive advantage. Evans *et al.*, (2003:260), describe the process of networking as individually operated businesses that join together in “networks” or consortia in order to achieve the marketing, branding and systems advantages of larger rivals while maintaining their independence.

Cooperation between multiple actors is necessary in order to develop more sustainable ways of running business activities. The need for cooperation is even more pronounced in industries that involve relatively large numbers of small actors with few resources to pursue sustainable development individually (Halme & Fadeeva, 1993:98). This aptly describes SMMTE’s which comprise many players and involves linking to other SMMTE’s to provide the complete tourism experience (product).

Copp and Ivy (2001:347) distinguish between informal and formal networks.

- Informal networks consist mainly of individuals such as family, friends and former colleagues who are contacted to give advice and support. This network can be extremely important in the first few years of a business.
- Formal networks imply a link between the entrepreneur and an organisation rather than an individual (Donckels & Lambrecht, 1997:16, cited in Copp & Ivy, 2001:347). This network consists of local, state, and federal advisory agencies such as chambers of commerce and small business associations.

Benefits from networking can be realized in different areas of sustainability: economic, environmental, social and cultural. As far as the economic dimension is concerned, the following benefits are applicable: image improvement and

customer satisfaction, new ideas for business, strategy development and systematization of general management, and overcoming seasonality by developing diversified tourism products.

Other benefits associated with networking include:

- personal benefits such as a feeling of belonging, empowerment and a sense of civic pride;
- benefits to SMME's such as an increase in information available to firms belonging to a network, image improvement and competitive advantage realised through the publicity and credibility provided by the network, and the facilitation of better relationships between authorities and SMMTE's; and
- regional or social benefits such as the augmentation of the attractiveness of the region as a tourism destination (i.e., to improve the tourism product).

4.3.7 International best practice – Entrepreneurial support organisations

The population of the United States with its passion for free enterprise is among the most entrepreneurial in the world with one in ten adults engaged in entrepreneurship (Centre for Rural Entrepreneurship, June 2003). The Centre for Rural Entrepreneurship is of the opinion that a key focus for economic development should be supporting the development of Entrepreneurial Support Organisations (ESO's).

Entrepreneurial development is defined as the practice of encouraging the creation and growth of start-up companies (Pages & Poole, 2003:1).

ESO's come in many forms, often organised as networks, intermediary organisations or sectoral clusters. They are generally non-profit organisations with strong public missions. Sometimes they are entrenched in local government or associated with educational institutions. Their missions are often rooted in addressing poverty, social justice, economic development, community improvement or sustainable development (Centre for Rural Entrepreneurship, 2003).

4.3.7.1 Incubator organisations

ESO's are very similar to the concept of incubator organisations, which can be described as the organisation where the entrepreneur was employed before starting his / her new venture (Cooper, 1985).

According to the National Business Incubation Association (NBIA), *Business incubation catalyzes the process of starting and growing companies, providing entrepreneurs with the expertise, networks and tools they need to make their ventures successful. Incubation programmes diversify economies, commercialise technologies, create jobs and build wealth.*

Features of incubators generally include:

- a managed work space providing shared facilities, advisory, training and financial services, and a networking environment for tenant companies;
- a small management team with core competencies; and
- a selection of start-up companies that enter the incubator together, to graduate (generally) after three years.

Incubator models may vary according to their mandate (for-profit or non-profit), the type of sponsorship they have (public, private or mixed) and their focus (the most frequent types of niche incubators are related to technology and bio-technology).

Incubation programmes may also have a wide range of goals, including the development and generation of new jobs as well as the creation of entrepreneurship in transition economies.

4.3.7.2 Successful ESO's

The Centre for Rural Entrepreneurship (2003) and Pages and Poole (2003) recognise the following characteristics of high performing ESO's:

- **Entrepreneurial environment.** Successful ESO's work to build supportive entrepreneurial environments. These ESO's focus on identifying, engaging

and supporting local entrepreneurs who, in turn, work to create successful enterprises.

- **Networking infrastructure.** Networking and mentoring are often cited by entrepreneurs as the most important support an entrepreneur can receive. Successful ESO's build and support networking infrastructure.
- **Capital access.** Another attribute of high performing ESO's is their role in helping entrepreneurs access capital needed to start and grow enterprises.
- **Market access.** ESO's engage in helping entrepreneurs gain awareness of and experience in a wider range of market environments.
- **Technical assistance.** ESO's provide access to technical assistance. The form of this technical assistance includes traditional business counselling, mentoring access, and networking opportunities, building experience and entrepreneurial training.
- **Entrepreneurial facilitation.** Entrepreneurial facilitation is a highly sophisticated and customised approach to helping entrepreneurs pursue their passion for creating ventures.

The Centre for Rural Entrepreneurship (2003) reaches the conclusion that ESO's are critically important to stimulating entrepreneurship, building supportive entrepreneurial environments and helping entrepreneurs succeed in rural areas.

4.4 TOWARDS FORMULATING A STRATEGY FOR THE DEVELOPMENT OF TOURISM-RELATED SME's

In the preceding sections certain international best practices (strategies) were identified. From this background it is possible to consider how they can be applied to develop a local development strategy.

Acknowledging government's interventionist role in the industry due to market imperfections, it is necessary to distinguish between international best practices which can be implemented by the SME itself and those that require implementation by a higher planning or policy-making authority. Table 4.2 identifies international best practice, implications and level of action required.

Table 4.2: International best practice implementation responsibility

International best practice	Implication	Responsibility
Develop an entrepreneurial economy	Decentralise policy formulation (localisation)	Policy forming & planning authorities
Stimulate local SME participation in economy	Foster linkages	Planning authority
Increase competitiveness of local SME's	Formation of clusters	Planning authority
Stimulate entrepreneurship	Establish incubators or entrepreneurship support organisations (ESO's)	Planning authority
Serve the global market	Form alliances	SME's own responsibility
Pursue co-operation strategy	Form partnerships and alliances	SME's own responsibility
Achieve same advantages as larger rivals	Form networks	SME's own responsibility

It is argued that the development of an entrepreneurial economy, the stimulation of local SME participation and increasing local competitiveness are chiefly the responsibilities of planning authorities. Furthermore, the activities of serving the global market, pursuing a strategy of cooperation and achieving similar advantages as larger rivals should be the responsibility of SME's themselves.

The identification of the above strategies is supported by Morrison and Thomas, (2004:11), who express the opinion that potential ways of offsetting the weaknesses within the SME business model centre on the following:

- encouragement to adopt cooperative and collaborative networking towards beneficial clustering of inter-destination stakeholders along with those that can add value from a distance; and
- the stimulation of innovation and entrepreneurship to augment core products and create sustainable competitive advantage.

Those international best practices which have been identified as best implemented by government authorities (because of market imperfections) will be taken into consideration when a strategy for the development of tourism related SME's is developed in Chapter nine.

4.5 SUMMARY

Chapter three has shown the positive benefits that tourism can bring to the economic development of a country.

Chapter four has indicated that a distinction must be made between “life-style” small businesses and “entrepreneurial” small businesses. The negative outlook for tourism-related SME’s by certain authors seems to be applicable to “life-style” enterprises that are unable or unwilling to change. There seems, however, to be a bright future for those “entrepreneurial” enterprises that are able and willing to make major changes in their core business, products and services as well as their organisational structures in order for them to focus on maintaining competitive advantage.

In South Africa, as well as internationally, most SME policy guidelines concentrate on the demand side while the supply side seems to be largely neglected.

Chapter four has shown further that, notwithstanding the effects of globalisation, SME’s who follow and implement international best practice will more likely have a chance of sustainability and long-term viability. It also identified international best practices (strategies) required to ensure this long-term viability. Finally, the implications of these strategies and the area of responsibility were identified in order that it may be incorporated into the main objective of this study – the formulation of a development strategy for small businesses operating in the tourism sector of the Southern Cape.

This chapter has stressed the fact that tourism-related SME’s can achieve the economic benefits associated with them if international best practice is followed. To achieve these benefits, however, it becomes necessary to establish policy directives and plan accordingly. Chapter five explores this concept further and attempts to determine the issue of responsibility demarcation of the planning function.

Chapter 5

POLICY MAKING AND PLANNING FOR SMALL TO MEDIUM TOURISM ENTERPRISES

5.1 INTRODUCTION

According to the World Tourism Organisation (WTO) (1994:viii), it is now recognised that tourism must be developed and managed in a controlled, integrated and sustainable manner, based on sound planning. With this approach, tourism can generate substantial economic benefits to an area, without creating any serious environmental or social problems.

The preceding chapters have identified the roles played in the tourism industry by SME's, and also established that tourism SME's will be viable if they apply international best practices. Furthermore, it has been argued that, for growth to be achieved in this sector, growth will need to be planned. This, however, raises the question as to who should be doing this planning, and at what levels should it be done.

This chapter will illustrate the difference between "policy" and "planning" (Objective No. 3). It will also show that traditional approaches to tourism planning have concentrated on land allocation or issues of demand, and have neglected the practice of supply-side intervention. In addition, it will be argued that efficient planning has to be regional and strategic in nature.

The importance of this chapter lies in the fact that it will identify the sphere of government whose responsibility it is to make policy decisions and put these policy directions into practice (operational planning), with a view to incorporating this operational planning function into the strategy developed in Chapter nine.

The chapter commences by making a distinction between the concepts “planning” and “policy”. It then focuses on the various approaches to tourism planning, followed by an exposition of the decision-making process involved in planning and policy from the international level down to the local level. Finally, the concepts “strategy” and “regionalism” are investigated along with how they relate to tourism planning.

5.2 TOURISM PLANNING AND TOURISM POLICY

A great deal of confusion exists in the field of tourism as to the meaning of the terms “planning” and “policy”, and these two concepts are often used interchangeably.

5.2.1 Planning

Planning is an attempt to create order from apparent chaos and used to provide form and structure within human activities (Leberman & Mason, 2002:4). Planning, in the field of recreation and tourism, exhibits similar features to that of planning in general, in that it is often disjointed and reactive. In addition, the process of planning in recreation and tourism is complex and difficult to put into operation due to the fact that it may involve a variety of land owners, public bodies and private providers, as well as different user groups (Veal, 1994; Williams, 1998, cited in Leberman & Mason, 2002:4).

Veal (1992:3), sees planning as the process of deciding. Similarly, Dror (1973:330) argues that planning is the process of preparing a set of decisions for action in the future, directed at achieving goals by preferable means. According to Hall (2000:7), planning is a kind of decision-making and policy-making, however, it deals with a set of interdependent and systematically related decisions rather than individual decisions. Therefore planning is only one part of an overall “planning-decision-action” process.

Planning as a process must therefore be distinguished from a “plan”, which is a set of decisions for action in the future (Dror 1973:7), and, as is often the case with

tourism planning, is related to land use planning in particular. The most important characteristic of planning is that it is directed at the future (Hall 2000:8).

Williams (1998:126) defines planning as an ordered sequence of operations and actions that are designed to realise either a single goal or a set of inter-related goals and objectives. This implies that planning is (or should be) a process:

- for anticipating and ordering change;
- that is forward looking;
- that seeks optimal solutions to perceived problems;
- that is designed to increase and (ideally) maximise possible developmental benefits, whether they be physical, economic, social or environmental in character; and
- that will produce predictable outcomes.

Planning is important in tourism for the following reasons:

- it provides a structured provision of tourist facilities and associated infrastructure;
- in view of the natural patterns of fragmentation within tourism, any system that permits coordination of activity will become essential to the development of the industry's potential;
- planning can be a mechanism for the distribution of tourism-related investment and economic benefits; and
- it is a means to anticipate likely demand patterns and to attempt to match supply to those demands.

(Williams, 1998:129).

5.2.2 Policy

Goeldner and Ritchie (2003:413) define tourism policy as a set of regulations, rules, guidelines, directives and development/promotion objectives and strategies that provide a framework within which the collective and individual decisions that are taken directly affect long-term tourism development, and the daily activities within a destination.

According to Goeldner, Ritchie and McIntosh (2000, cited in Vanhove, 2000:111), tourism policy fulfils the following functions:

- it defines the terms under which tourism operators must function;
- it sets out activities and behaviours that are acceptable;
- it provides a common direction and guidance for all tourism stakeholders at a destination;
- it facilitates consensus around specific objectives and strategies for a given destination;
- it provides a framework for public / private discussions on the role and contributions of the tourism sector to the economy and to society in general; and
- it allows tourism to interface more efficiently with other sectors of the economy.

Since public policy is first and foremost a political activity, it should be seen as a consequence of the political environment, values and ideologies, the distribution of power, institutional frameworks, and of decision-making processes (Simeon 1976; Hall and Jenkins 1995; Elliot 1997).

5.2.3 The relationship between policy and planning

Realising the close relationship between planning and policy, Cullingsworth (1997:5), defines planning as the purposive process in which goals are set and policies elaborated to implement them. In contrast, policy analysis is concerned with understanding and explaining the substance of policy content and policy decisions and the way in which policy decisions are made (Barrett & Fudge, 1981:6), where public policy is the structure or confluence of values and behaviour involving a governmental prescription (Kroll, 1969:9). For the purpose of this study, this difference between the concepts of “planning” and “policy” is accepted.

A literature search revealed that in South Africa, tourism policy is set out in the White Paper – The Development and Promotion of Tourism in South Africa,

prepared by the Department of Environmental Affairs and Tourism (DEAT) in 1996. No policy document has been published since then.

Planning for tourism in South Africa, on the other hand, is characterised by, what Williams (1998) identifies as a major problem, that planning operates at a range of scales, from national through to the local level. This can contribute to problems of coordination. Furthermore, planning in South Africa at these levels should be informed by the IDP process which is at present poorly understood and implemented by local, regional and provincial spheres of government (see section 6.3.4 for a detailed discussion of the IDP process).

5.2.4 The importance of planning

The importance of planning is summarised by Gunn (1988), who has identified a number of assumptions regarding the value of tourism planning.

- Only planning can avert negative impacts, although for planning to be effective, all actors must be involved – not just professional planners.
- Tourism is symbiotic with conservation and recreation, not a conflicting use with irreconcilably incompatible objectives or effects.
- Planning today should be pluralistic, involving social, economic and physical dimensions.
- Planning is political, and as such there is a vital need to take into account societal objectives and balance these in the context of other (often conflicting) aspirations.
- Tourism planning must be strategic and integrative.
- Tourism planning must have a regional planning perspective – because many problems arise at the interface of smaller areas, a broader planning horizon is essential.

5.2.5 Planning levels

Planning for tourism is differentiated in terms of:

- **forms** (for example, development infrastructure, land and resource use, organisation, human resource, promotion and marketing);
- **structures** (for example, different government, quasi-government and non-government organisations);
- **scales** (international, trans-national, national, regional, local, site and sectoral); and
- different **time scales** (for development, implementation, evaluation and satisfactory fulfilment of planning objectives) (Hall, 1998b).

Furthermore, planning is rarely exclusively devoted to tourism *per se*. Instead, planning for tourism tends to be an amalgam of economic, social and environmental considerations which reflect the diversity of the factors which influence tourism development (Healey, 1981:61).

5.3 APPROACHES TO TOURISM PLANNING

Tourism planning has tended to be focused on destination planning rather than individual tourism business planning (Gunn, 1979, 1988, 1994; Inskeep, 1991). The recent developments of ecotourism and sustainability becoming major issues together with developments in the field of environmental planning, and the attention being given to the relationship to policy, have caused the concept of tourism planning to be seen not simply as an exercise in land-use planning.

According to Gunn (1994:114), modern planning approaches have been influenced by past techniques and approaches. He provides the following examples.

- Recreation areas: – Kiemstedt (1967) prepared a model that measures and maps three sets of factors to determine areas best suited for recreation development. Factors investigated are inherent physical attributes, available leisure facilities, and the cultural milieu of the region.
- Product's Analysis Sequence for Outdoor Leisure Planning (PASOLP): – created by Lawson and Baud-Bovy (1977), and stressing the importance of integration with a nation's policies, physical environment and related sectors

of the economy, the PASOLP approach incorporates a four-phase planning process, viz. scientific investigation and analysis, identification of development objectives, creation of physical plan, and impacts.

- Market/Plant match: – acknowledges the importance of matching development with needs and desires of travel markets.
- Spatial patterns – Gunn (1994:119) summarises the contributions of geographers to the literature of tourism development as follows:
 - Interest topics such as spatial patterns of supply (Wolfe, 1951; Piperoglou, 1966; Thompson, 1971; Pearce, 1979).
 - Spatial patterns of demand (Wolfe, 1951; Boyer, 1962, 1972; Deasy & Griess, 1966).
 - The geography of resorts. (Relph, 1976; Pigram, 1977; Pearce, 1978).
 - Tourism movement and flows (Guthrie, 1961; Campbell, 1966; Williams & Zelinsky, 1970; Wolfe, 1970; Archer & Shea, 1973; Marriot, 1976).
 - Impacts of tourism (Christaller, 1954, 1977; Odouard, 1973; White, 1974; Coppock & Duffield, 1975; Archer 1977; Smith 1977; Pearce, 1978).
 - Models of tourism space (Miossec, 1976, 1977; Yokeno, 1977).
 - Shifts over time of the growth of hotel development (Van Doren & Gustke, 1982).

The above quoted contributions have tended to concentrate on land allocation and uses, carrying capacity and analysis of tourism impacts.

Focussing on frameworks that help identify destination zones that have special suitability for tourism, Fagence (1991) advocated a coordinated and collaborative approach among all public and private interests, especially to stimulate entrepreneurial initiative.

- Regional factor planning: – Gunn (1952) advocated the consideration of locations with favourable natural resource factors such as water, wildlife, land forms, forests and climate; and man-made factors of markets,

transportation, competition, history and neighbourhood. These factors were identified as key success factors for successful destinations.

Gunn (1994:6) feels that there is a prevailing misconception that tourism is an industry. Instead, it is an agglomeration of land development and programmes designed to meet the needs of travellers. This agglomeration has environmental and social as well as economic implications. It is made up of more than one business sector. The better this is understood, the better tourism can be planned and the more successful it will be. Gunn (1994) goes on to identify three sectors of tourism developers, viz. the business sector, the non-profit sector and the Government sector whose involvement goes much further than the traditional role of enactment and implementation of laws and regulations.

The following goals for development are identified:

- enhanced visitor satisfaction;
- protection of resource assets;
- improved economy and business success; and
- community and area integration.

According to Hall (2000:17), the focus and methods of tourism planning have not remained constant and have evolved to meet the new demands placed on the tourism industry. As can be witnessed by the retreat by central government from active intervention during the 1980's and early 1990's, tourism is clearly not immune to changes in political philosophy in its wider policy environment. Tourism is subject to direct and indirect government intervention, often because of its employment and income-producing possibilities and therefore its potential to diversify and contribute to national and regional economies.

Government intervention in tourism is often related to market failure, market imperfection and social need, and planning has often been concerned with promotion and short-term returns rather than strategic investment and sustainability (Hall 2000:18).

Gertz (1987) identified four broad traditions of tourism planning:

- boosterism;
- an economic, industry-oriented approach;
- a physical/spatial approach; and
- a community-oriented approach which emphasises the role that the host plays in the tourism experience.

To this, Hall (2000:20) adds a fifth dimension:

- a sustainable model of tourism planning.

Getz (1987) notes that ... *the four traditions are not mutually exclusive, nor are they necessary sequential.*

5.3.1 Boosterism

This dominant tradition embraces the simplistic attitude that tourism development is inherently good and of automatic benefit to the hosts. Little consideration is given to the potential negative economic, social and environmental impacts of tourism and, instead, cultural and natural resources are regarded as objects to be exploited for the sake of tourism development.

According to Getz (1987:10) ... *boosterism is still practiced, and always will be, by two groups of people: politicians who philosophically or pragmatically believe that economic growth is always to be promoted, and by others who will gain financially by tourism.*

5.3.2 The economic tradition: Tourism as an industry

According to this approach, tourism is seen as an industry which can be used as a tool by government to achieve certain goals of economic growth and restructuring, employment generation, and regional development through the provision of financial incentives, research, marketing and promotional assistance.

Within the economic tradition, government utilises tourism as a means to promote growth and development in specific areas. Therefore, the planning emphasis is on the economic impacts of tourism and its most efficient use to create income and employment benefits for regions or communities. Economic goals are given priority over social and ecological questions. Limited attention is paid to the negative impacts of tourism.

5.3.3 The land-use/physical/spatial approach

Within this approach, tourism is often regarded as having an ecological base with a resultant need for development to be based upon certain spatial patterns that would minimize the negative impacts of tourism on the physical environment. Attention is paid to the issues of physical and social carrying capacity, environmental thresholds, and limits to or acceptable/desirable rates of change.

5.3.4 Community oriented tourism planning

The community approach to tourism planning is a “bottom-up” form of planning, which emphasises development **in** the community rather than development **of** the community. According to this approach, residents are regarded as the focal point of the tourism planning exercise, not the tourists, and the community, which is often equated with a region of local government, is regarded as the basic planning unit. A major problem associated with this approach to tourism planning relates to the political nature of the planning process, which, by its very nature, can give rise to a form of “tokenism” in which decisions have already been prescribed by government and communities rarely have the opportunity to say no.

5.3.5 A sustainable approach to tourism planning

Mowforth and Munt (2003:105) describe Agenda 21 as a global plan endorsed by the 1992 Rio Summit in Brazil. It sets out the priorities for sustainable development into the twenty-first century. Agenda 21 impinges on tourism in two ways.

- First, tourism is specifically mentioned as offering sustainable development potential to certain communities, particularly in fragile environments.
- Second, tourism will be affected by Agenda 21's programme of action because its many impacts may be altered by the legal framework, policies and management practices under which it operates.

Hall (2000:20) argues that sustainable development has a primary objective of providing lasting and secure livelihoods which minimise the depletion of resources, environmental degradation, cultural disruption and social instability. Furthermore, sustainable development includes concerns of equity, the needs of economically marginal populations, and the idea of technological and social limitations on the ability of the environment to meet present and future needs.

Because of the many contradictions within both the concept of sustainable development and the nature of tourism, complete satisfaction of the concept will be extremely difficult to achieve. This viewpoint is echoed by Burns (2003), who cite the reaction of Roe, Leader-Williams and Dalal-Clayton's (1997), to the calls to "leave only footprints" ...*as being ironic since footprints with no dollars attached do little to develop the industry to levels of critical mass that can supply large-scale employment and a reliable stream of tax revenues to be used to implement beneficial government policies including health, education and welfare.*

Mowforth and Munt (2003) identify the following four types of sustainability that are applicable to tourism. They are:

- ecological sustainability;
- social sustainability;
- cultural sustainability; and
- economic sustainability.

The sustainable approach is closely related to the concept of "Pro-poor Tourism" (PPT) that can be described as tourism that results in increased net benefits for poor people. PPT is not a specific product or niche sector, but an approach to tourism development and management. It enhances the linkages between tourism

businesses and poor people, so that the contribution of tourism poverty reduction is increased, and poor people are able to participate more effectively in product development (Pro-Poor Tourism, 2002). Bins and Nel (2002) also acknowledge PPT as an emerging theme in development literature.

While PPT overlaps with other approaches to tourism, including sustainable, responsible, and community-based approaches, the key distinctive feature is that PPT places poor people and poverty at the top of the agenda (Ashley & Roe, 2002).

The complex nature of the tourism industry and the often poorly defined linkages between its components are major barriers to the integrative strategic planning which is a prerequisite for sustainable development.

5.3.6 Continuum approach

Gunn (1994:21) is of the opinion that, contrary to approaches in the past, the new planning approaches involve members from all the constituencies affected, as well as with professional planners and Government agencies. Although it is logical that planners should come from Governments, non-profit sectors and free enterprise, professional planners should also be included because of the great complexity of tourism and because their involvement does not entail any vested interest in a specific segment of tourism.

Gunn (1994:109) argues that planning, although it includes discursive aspects, also relies heavily on intuition. As such, he is of the opinion that there is no right way to plan, especially at such a large a scale. Acknowledging this apparent confusion in respect of tourism planning, Burns (1999) proposes that pre-industrialised or non-industrialised countries, (especially the so called Third Worlds), approach to tourism be placed on a continuum.

At one end of the continuum, powerful and well-rehearsed arguments concerning the economic and growth benefits to be gained from this industry through the various multipliers and high tourist arrival numbers are placed. This is termed a

Tourism First perspective and the focus is on developing tourism for tourism's sake. The Tourism First perspective is supply-led and focuses on product development and the creation of holiday destinations.

The opposite pole is concerned with using tourism as a tool for national development and is termed a Development First approach. Emphasis is placed on the net benefits to the nation or region in question. This approach sees tourism as a means of, or tool for, achieving national social and economic goals. The Development First approach would focus on the elimination of poverty, the creation of productive employment, and the betterment of the status of women. In the case of South Africa, it could also include the position of previously disadvantaged communities.

The position on the continuum can also be influenced by the level at which tourism planning takes place. Tourism First approach would seem to be more applicable to national planning, while the Development First approach would be more applicable to regional planning.

Stemming from the contradictions and tensions arising out of his Development First / Tourism First approach, Burns (2003:27), criticises his earlier (1999) approach on four fronts and proposes a third way which incorporates the following facets:

- agree on goals at local, regional and national levels;
- develop institutions and encourage NGO's to "enable beneficial relationships between actors"- in other words ensure that participation in the process is as wide open as possible;
- develop a number of systems each supported by appropriate social institutions, that encourage inter-sectoral and intra-sectoral cooperation and the development of tourism that has the capacity to satisfy a full range of actors;
- agree on locations for various types of tourism;
- agree on markets and segments most likely to appreciate the attributes of a destination; and

- encourage the private sector to develop tourism within the agreed parameters of a plan.

5.3.7 Integrated quality management approach

Another modern approach is that of Integrated Quality Management as expounded by the European Commission (2000).

The “quality” of a product is defined by International Standard ISO 8402 as...*the totality of characteristics that bear on its ability to satisfy (the) stated and implied needs of the user.* The same standard defines “quality management” as *all activities of the overall management functions that determines the quality policy, objectives and responsibilities, and implement them by means such as quality planning, quality control, quality assurance and quality improvement within the quality system.*

For a tourist destination, Integrated Quality Management (IQM) can be seen as a systematic quest for **internal quality** and **external quality**, i.e. economic improvement in the short-term and local development in the long term.

Internal quality is the value that tourists receive throughout the chain of experiences that characterise their visit, from the initial information they receive prior to departure to the after-sales service. This chain includes private links (private services purchased directly at market prices) and public services such as general publicity, road maintenance, water management, public cleanliness, security, etc. internal quality has short-term aims.

External quality means the development of sustainable tourism with a rational and renewable use of resources such as territory, energy, water, natural resources, heritage, etc. in order to prevent problems of congestion. The aim of external quality has a long-term aim (European Commission, 2000).

This approach is reflected in the “chart of the integrated quality management approach” proposed for coastal tourist destinations (and in the view of the

researcher, applicable to all destinations) by the European Commission and depicted in Figure 5.1.

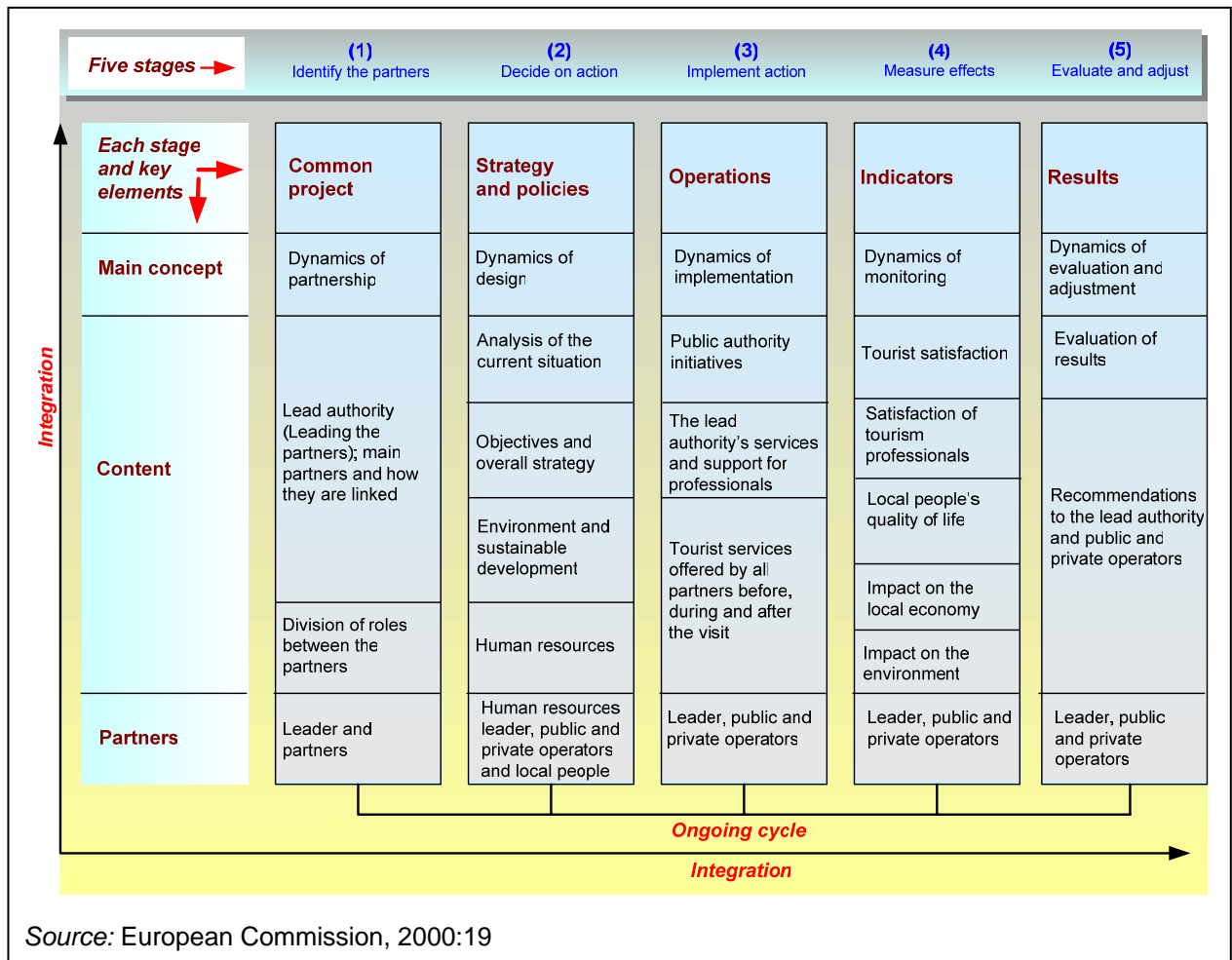


Figure 5.1: Chart of an IQM approach for coastal tourist destinations

The IQM approach relates and integrates the five stages that mark out the quality management chain applied to a tourist destination, and attempts to describe, for each of these stages, its driving force, its content and the agencies and people that it involves. It provides and therefore requires vertical and horizontal integration:

- Vertical integration: No stage can function unless the elements that make it up are closely linked.
- Horizontal integration: The approach can function only if the five stages are linked by a continuous cyclical process through which all the elements of the

approach being implemented can be adjusted on the basis of the results obtained.

As noted earlier, there does not seem to be a definitive approach to tourism planning.

The approaches that have been identified are not mutually exclusive. In line with this observation, this study will concentrate on the economic approach within the realms of community involvement, sustainability and Integrated Quality Management.

According to Timothy (1999), the changing emphasis in planning suggests a significant dissatisfaction with traditional approaches to tourism development and a perception that improvements can be made. Because it is commonly accepted that tourism impacts are most apparent at the level of the destination community, researchers have started to emphasise the need to decentralise planning.

5.4 POLICY, PLANNING AND THE DECISION-MAKING PROCESS

In Section 5.2 we have seen that planning can be seen as the process of deciding and is a kind of decision-making. Also, planning as a process must therefore be distinguished from a “plan”, which is a set of decisions for action in the future. Furthermore, we noted that planning occurs in a number of forms, structures, scale and time-scales.

In his discussion of the planning process, Gunn (1994:142) distinguishes between two types of planning taking place in concert – a “supply-side plan” updated regularly (perhaps every five years) and a “continuous planning action”. He suggests a five-step planning process on the supply-side comprising the following steps:

- Step 1. Setting objectives;
- Step 2. Research;
- Step 3. Synthesis and conclusions;
- Step 4. Concepts; and
- Step 5. Recommendations.

Recommendations cover four aspects of tourism development: Physical development, programme development, policies, and priority.

Although identifying the kinds of development needed to improve the supply-side match with demand in the areas of attractions, transportation and services, the process fails to address the “methodology” of how this development is to be achieved.

According to Hall (2000:68), public policy-making and planning are first and foremost political activities. Public policy is influenced by the economic, social and cultural characteristics of society, as well as by the formal structures of governments and other features of the political system.

Policy and planning are therefore consequences of the political environment, values and ideologies, the distribution of power, institutional frameworks, and of decision-making processes (Simion, 1976; Hall & Jenkins, 1995; Elliot, 1997).

The fact that governments, ideologies and the political environment are often subject to change (more so in Third World countries) is contradictory to the long-term approach required by the sustainable approach to tourism planning (see Section 5.3.5).

Hall (2000:71) provides a useful model depicting the influences of, and interaction between, the various scales of tourism planning in Figure 5.2. He identifies five different levels at which planning could take place, namely, International, National, Regional, Local, and Site.

In terms of the distinction between planning and policy (Section 5.2.3), it may be deduced that decisions taken at the International and National levels constitute “policy” and are long-term oriented, while decisions taken at the Regional, Local and Site levels constitute “planning” and are continuous by nature since they are more detailed, specific and operational. It is important to note that the relationships

between the various components of the planning and policy framework exist both vertically and horizontally.

Also, in developed nations, policy is confined to the International, Supra-national and National levels while planning takes place at the Regional, Local and Site levels. In developing countries, both policy and planning, often takes place at the National level.

5.4.1 Planning and policy at the international and supra-national levels

According to Hall (2000:103), for a field as international in scope as tourism, there are surprisingly few international agreements and regulations which are directly concerned with the management of tourism activity. Tourism is a significant component of international relations and diplomatic activity, with the ease of access between countries often being an indirect measure of the degree of positive relations between them.

Despite the existence of a number of international tourist organisations, the most notable being the World Tourist Organisation, there is little in the way of supranational regulation of tourist services, except for the area of air transport where a number of conventions cover landing rights and safety.

Despite this paucity of international agreements directly related to tourism, a significant institutional framework for tourism policy and planning exists at the international level, consisting of international organisations with direct and indirect interests in tourism, and a range of international laws related to areas including the environment, heritage, trade, labour relations and transport.

Hall (2005:105), acknowledges the influence of international law on all tourism arrangements, and distinguishes between hard and soft law. Hard international law refers to firm and binding rules of law such as the content of treaties and the provision of customary international law to which relevant nations are bound as a matter of obligation. Soft law refers to regulatory conduct which, because it is not provided for in a treaty, is not as binding as hard law.

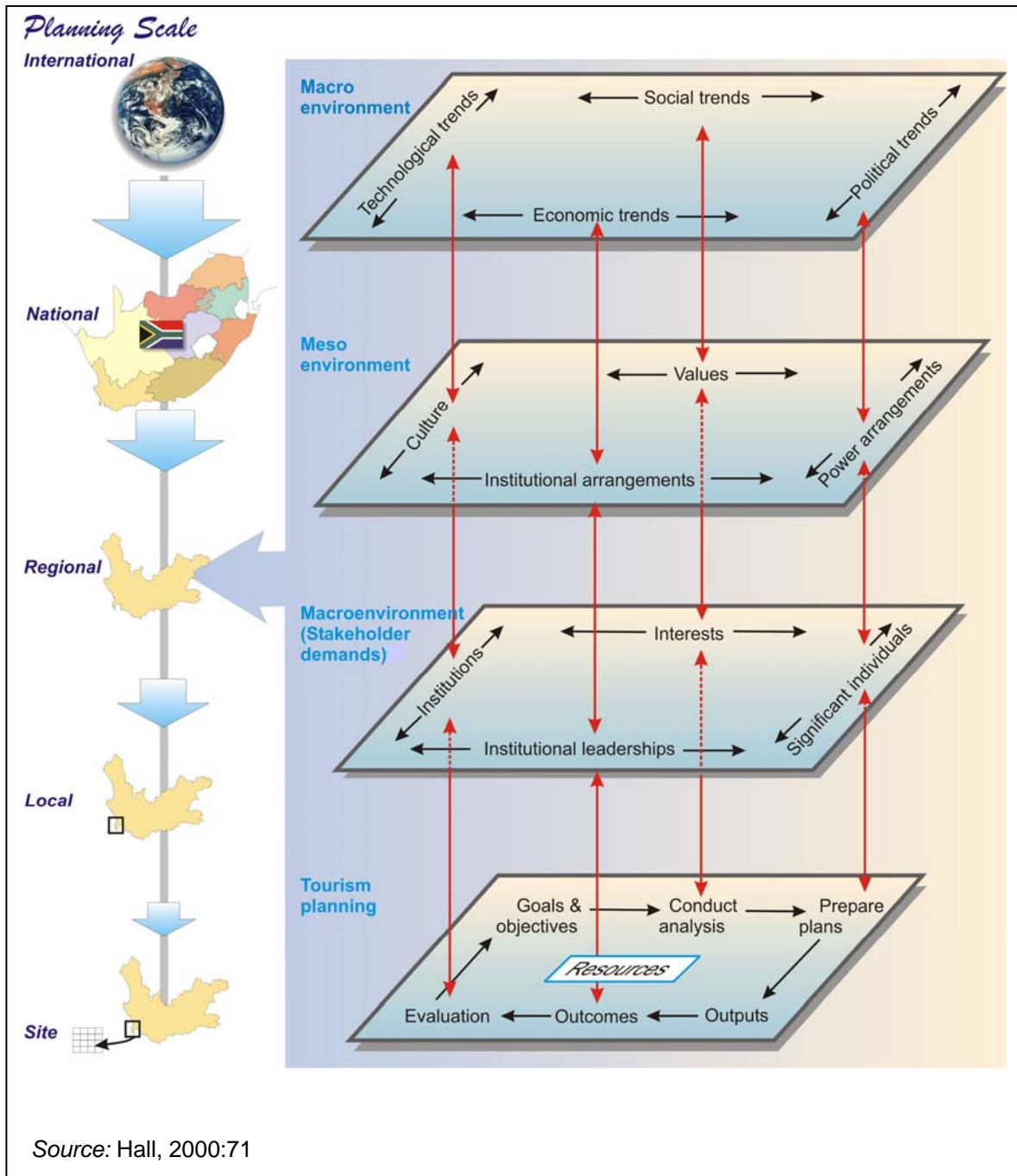


Figure 5.2: Factors and dimensions of tourism planning

Examples of international institutions involved in determining policy and planning at international and supra-national levels are listed below.

Those concerned with trade are the:

- International Monetary Fund (IMF);
- Organisation for Economic Cooperation and Development (OECD); and
- World Trade Organisation (WTO).

Those with a more specific interest in tourism activities include the:

- World Tourism Organisation (WTO);
- International Civil Aviation Organisation (ICAO);
- International Maritime Organisation (IMO); and
- Customs Cooperation Council (CCC).

Regional bodies such as the:

- Tourism Council of the South Pacific (TCSP); and
- Tourism Program of the Organisation of American States.

5.4.2 Planning and policy at the national and sub-national levels

According to the World Tourism Organisation, the state is involved in tourism in five distinct ways:

- it establishes a framework within which the private and public sectors can cooperate;
- it legislates and regulates to protect the environment and cultural heritage;
- it constructs the infrastructure;
- it develops training and education for tourism; and
- it formulates overall policy and plans for tourism development.

(Raphael, 1993, cited in Harrison, 2001:34).

On the other hand, Harrison (2001:34), suggest that government participation can vary. He distinguishes between “passive” involvement, which has negative or positive implications for tourism but may not be primarily directed at the industry, and “active” participation directed specifically at tourism-oriented goals. Within these categories, a further distinction between passive involvement, which is mandatory and that which is supportive, is made. Also, active involvement can be either managerial or developmental. Harrison (2001:34) questions how far most governments in less developed countries (LDC’s) are able to carry out these functions satisfactorily.

Notwithstanding the importance of globalisation for policy and planning, Hall (2000:135) acknowledges the important role that national and local governments

play – particularly in the light of how laws are enforced and the reawakening of interest in regional governance. He is of the opinion that the role of the state has not diminished, but has changed. In fact, ... *although tourism is often regarded as a private sector activity, government agencies at every level from the international down to small towns have adopted a progressively more active role in the use of tourism as a development tool.*

5.4.2.1 Government intervention

Hall (2000) identifies a number of roles that can be associated with government intervention:

- Coordination – within and between the different levels of government in order to avoid duplication of resources between the various government tourism bodies and the private sector, and to develop effective tourism strategies.
- Planning – which occurs in a number of forms, institutions and scales.
- Legislation and regulation – ranging from authority on passport and visa matters, through to environmental and labour relations policy. The level of government regulation of tourism issues is hotly debated, with calls from certain sectors for industry deregulation on the one side, to calls for increased regulation with respect to environmental protection (Bramwell & Lane, 1993) and human rights and social justice (Smith & Eadington, 1992).
- Government as entrepreneur – in the form of providing basic infrastructure, such as roads and sewage, and also owning and operating tourist ventures including hotels and travel companies. However, according to Hall (2000), the entrepreneurial role of government in tourism is changing in a climate in which less government intervention is sought. This has resulted in increased public-private arrangements in tourism-related development projects with the emphasis on commercial viability. The entrepreneurial role of the state in tourism development is closely related to the concept of the “devalorisation of capital”, whereby what would have been private costs are transformed into public or social costs.

- Stimulation – by means of financial incentives, such as low interest loans, sponsoring research for the general benefit of the tourism industry, and marketing and promotion.
- Tourism promotion – because of the size of this activity by government, it is often regarded as a separate function and includes facets such as identifying potential target markets and developing the best methods of attracting them.
- Social tourism – defined by Hall (2000:141), as *the relationships and phenomena in the field of tourism resulting from participation in travel by economically weak or otherwise disadvantaged elements of society*, and it involves the extension of the benefits of holidays to economically marginal groups. However, the call for less government involvement has resulted in a substantial decline in support for social tourism around the world in recent years.
- Government as public interest protector – although not necessarily tourism-specific, such a role will have major implications for the development of tourist policy.

5.4.2.2 A planning model

According to the World Tourism Organisation (1994), national and regional planning lays the foundation for tourism development of a country and its regions. It establishes the policies, physical and institutional structures and standards for development to proceed in a logical manner.

Gunn (1994:128) advocates planning on the three different levels of regional, destination and site. He provides the following model as a useful foundation for planning (see Figure 5.3).

Regional development of tourism (A in Figure 5.3) generally must have an increase in the volume of participation (B in Figure 5.3). More people must go to a region and spend money on tourism activities in order to generate more jobs, new incomes, and new tax revenues. However, increased participation is dependent on two factors:

- Heightened demand (C1) to visit the given region. To achieve this, people at their home origins must be able to exhibit both the desire and ability to travel to the region and participate in its offerings.
- The more people that demonstrate this propensity, the more changes in present levels of offerings (the supply) must take place (C2).

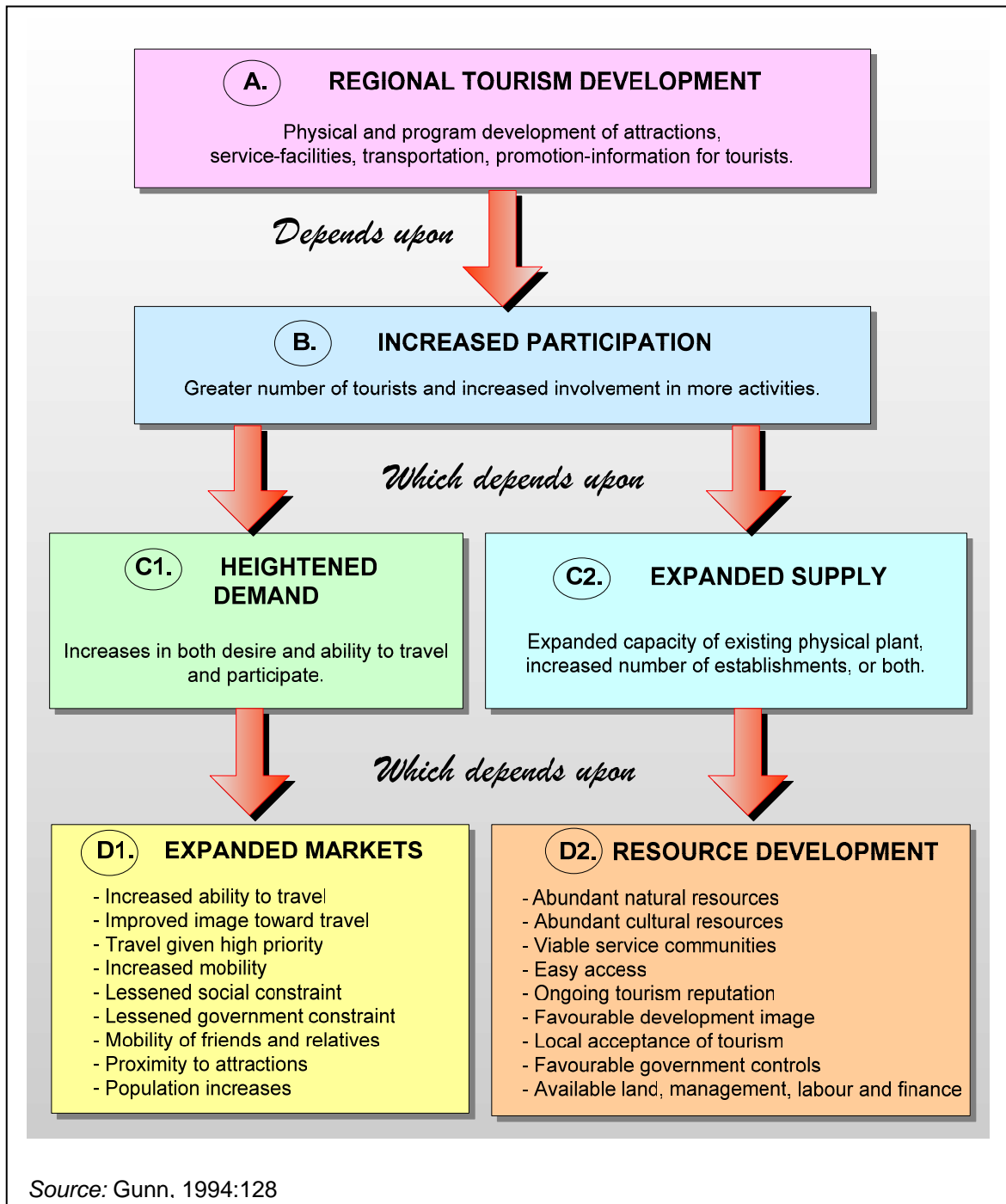


Figure 5.3: Planning Model

For this model to work, it should import the fewest services and goods – in other words, avoid leakages – and whatever changes are made must be appropriate to both national and local political and social goals.

For these accomplishments to happen there needs to be changes in both markets (D1) and resource development (D2). Changes in D1 are often influenced by overall cultural and economic trends of the nation and the world, and are normally beyond the control and manipulation of the region.

If anything major is to take place within a tourism region the changes in supply - providing more for people to see and do – become very important. The increase in number of attractions, transportation facilities, accommodation, food services, and retail sales and services depends on various factors (D2), not least of which is the availability of entrepreneurs and managers. The greater the supply of several types of developers and managers – for attractions, transportation, and lodging – the more favourable a region is disposed to development (Gunn 1994:134).

Although the planning model provides a useful point of departure in understanding the nature of regional tourism development, it fails, as a development planning tool, to take into account the dynamics of the tourism system. It acknowledges the need for entrepreneurs to increase the supply in order to stimulate increased visitors to a region, but it does not acknowledge the “catch twenty-two” position in which entrepreneurs find themselves – do they wait for increased demand to take place before increasing the supply (in which case nothing could happen), or do they increase supply in the hope that demand will increase, (in which case the risks involved increase considerably).

The above position argues strongly for a more positive approach or stand to be taken by regional government as far as encouraging local entrepreneurship is concerned.

5.4.2.3 Examples of intervention

Citing the UK as an example, Hudson and Townsend (1995:64) acknowledge the growing involvement of local authorities in policies to sustain existing tourist developments and encourage new ones, although the actual impacts of tourism on local employment and the economy are often imperfectly understood. The reason for this involvement arises from the fact that local authorities have turned to tourism as a last resort, in the face of falling employment in agriculture and a failure to attract “high-tech” business services.

The problem is high-lighted by the potential financial benefits arising from the successful promotion of themselves as attractive destinations on the one hand, and the dilemmas associated with developing a local economic structure that relies on tourism and then losing the battle for tourism, between places, on the other hand. Furthermore, if tourism is to be based around wage labour employed by big (externally controlled, multinational) companies (involved in big projects) or is it to be based around local small firms (and much smaller projects) with a much greater involvement of local entrepreneurs?

According to Williams (1998:135), planning of tourism at the national level is typically conceptual in character and normally seeks to define primary goals for tourism development and identify policies and broad strategies for their implementation. A second common goal of tourism planning is the designation of tourism development regions, while a third goal focuses on marketing. Planning at the regional level shows a marked increase in the level of detail and a sharper focus on particular development issues.

Local tourism planning is primarily focussed on the physical organisation of tourism resources, the control of physical development and on local visitor management (Goeldner & Ritchie, 2003:413).

Having established a difference between policy and planning at different levels, we now turn our attention to the concept of “strategy”, which serves to support this distinction.

5.5 THE MEANING OF STRATEGY

5.5.1 Definition

A strategy can be regarded as a process that goes on and on, continuously adapting to changing environmental factors. According to Evans, Campbell and Stonehouse (2003:5), this process consists of the following stages:

- strategic analysis;
- strategic choice;
- strategic implementation; and
- the feedback link.

Acknowledging the use of the term strategy in various ways, Evans *et al.*, (2003:9) quote the two viewpoints of Mintzberg and Chandler. Mintzberg suggests that the term strategy can be used to indicate any of the following:

- a plan;
- a ploy;
- a pattern of behaviour;
- a position in respect to others; and
- a perspective.

It is important that these usages should not be seen in isolation from one another. It is possible for an organisation to show evidence of more than one interpretation of “strategy”.

Chandler (1962, as quoted by Evans *et al.*, 2003:11), provides a more simplistic definition of the concept “strategy”. *Strategy is the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.*

For the purposes of this study, Mintzberg’s two concepts, “a plan” and “a perspective” will be used to describe strategy. A plan implies something that is intentionally put in motion and its progress is monitored from the start to a

predetermined finish (Evans *et al.*, 2003:9). A perspective strategy is about changing the culture (the beliefs and the “feel”, the way of looking at the world) of a certain group of people – usually the members of the organisation itself (Evans *et al.*, 2003:11).

5.5.2 Levels of strategic decision-making

Evans *et al.*, (2003:11) identify three levels at which strategic decisions are taken:

- Strategic level decisions are concerned with the acquisition of sustainable competitive advantage that involves the setting of long-term corporate objectives and the formulation, evaluation, selection and monitoring of strategies designed to achieve those objectives.
- Tactical decisions are concerned with how corporate objectives are to be met and how strategies are implemented. They are dependent on overall strategy and involve its fine-tuning and adjustment.
- Operational decisions are concerned with the shorter-term objectives of the business and with its day-to-day management. They are dependent upon strategy and tactics.

Applying the above to what has been learned from the previous sections, the strategic level can be interpreted to be analogous to central government, the tactical level to that of the provincial sphere and the operational level to that of district or local government level.

5.5.3 Successful strategy

Evans *et al.*, (2003:14) introduce the concept of *congruence* as a measure of the success of strategy. Once the strategic level objectives have been set, the operational objectives must be set in such a way that they contribute to the achievement of the tactical and strategic objectives. In other words, the operational decisions must “fit” the higher levels of decision-making. This concept is encapsulated in the IDP process discussed in Chapter six.

Given the relatively new importance attached to the theory of planning taking place at regional and local levels, it is useful at this stage to consider the phenomenon known as “Regionalism”.

5.6 INTERNATIONAL BEST PRACTICE – REGIONALISM

There is increasing scepticism about the effectiveness of government, particularly central government, and the intended consequences and impacts of many government policies, including with respect to tourism (Jenkins, 1997; Jenkins *et al.*, 1998). Richter (1989:21) observes that critics of current tourism policies are becoming aware, and are more than a little cynical, about the excesses and mistakes occasioned by national tourism development schemes.

According to Erkkula (2004:23), the study of sub-national areas or regions has become more and more important to the understanding of the economic dynamics of tourism development. Various authors (Lynch, 1999; McCarthy, 2000; Thomas, 2000; Wheeler, 2002) recognise the emergence of “regionalism” as a strategy that supports planning at the sub-national level.

5.6.1 Regionalism defined

Defining the “new regionalism”, Wheeler (2002) quotes the definition of the California Centre for Regional Leadership’s (2001): new regionalism is defined as a holistic planning approach ... *based on the interconnectedness of economic, environmental and social systems...* to be applied at various geographic scales. He is of the opinion that the new regionalism ... *is more interested in actively addressing current regional problems. In short, it represents a movement to develop a set of regional planning tools and strategies appropriate to 21st Century problems.*

5.6.2 Regionalism for development

Thomas (2000) points out that the new approaches to regional strategy have emerged in the context of national and international policy frameworks which

identify the regional level as key to economic growth at all spatial levels (Porter, 1990; Commission of the European Communities, 1994; OECD, 1996)

Tosun and Jenkins (1996, cited in Telfer, 2002:115), provide us with a useful description of what regional planning encompasses. They suggest that, at a broad level, regional planning is an effort to attain the best possible spatial pattern of development, the central concern being to solve the problem of the sub-national areas and insert regional plans into the overall national development plan of a country.

Smith (1995, as cited in Telfer, 2002:114) defines a tourism region as a contiguous area that has been explicitly delineated by a researcher, planner or public agency as having relevance for some aspect of tourism planning, development or analysis. He goes on to identify the three main types of regions as:

- *a priori* regions – when someone has already defined a boundary around it and assigned a name such as a political unit;
- a homogeneous region – defined by an objective set of internal similarities; and
- a functional region – which is an area with a high degree of internal interaction.

5.6.2.1 Regional development strategies

Regional development strategies or models which can be followed are:

- Innovation – development will occur when new ideas produce innovations or new combinations of productive means,
- Growth pole theory – development poles are identified as locations which contain propulsive enterprises that generate spread effects through investments. Growth poles will result in agglomeration economies, which result from of cost reductions which occur due to spatial concentration of economic activities.
- Agglomeration economies – with a focus on production, service and marketing linkages. Underdeveloped regions have weak interdependencies

and weak backward and forward linkages. If tourism is to be a successful development tool, it will be essential to strengthen linkages within the local economy; and

- Cluster theory – the process of clustering offers economies of agglomeration, which are linked to external economies of scale and provide competitive advantage.

(Telfer, cited in Sharply & Telfer, 2002:118)

It is argued, furthermore, that with the growing trend of focusing on the alternative tourism development paradigm, it becomes necessary to consider two more approaches, which are:

- integrated regional development planning, which emphasizes decentralization; and
- the territorial regional planning approach, which utilises local participation.

McCarthy (2000) distinguishes between,

- endogenous development, which is economic activity that grows from within a city or region, such as a new start-up business or the expansion of an existing firm; and
- exogenous development, which results from investment that comes from outside the city or region, such as a new factory of a foreign trans-national corporation.

The promotion of endogenous development is viewed as a more effective economic activity than strategies which only attract exogenous development.

5.6.2.2 Increasing competitiveness

McCarthy (2000) reports that, during the last few decades, individual cities in the United States and Western Europe have attempted to secure their prosperity by becoming increasingly entrepreneurial in their efforts to promote private-sector investment and encourage local business start-ups and expansions within their own jurisdictions.

Competitive regionalism can help to:

- mobilise the existing human and economic strengths of a region;
- attract new investment to a region from elsewhere;
- promote more balanced economic and physical development and service delivery;
- address socio-economic divisions; and
- find a profitable niche in the international economy based on high-quality business enterprises and communities that provide world-class products, services, jobs and business climate.

(McCarthy, 2000).

Wanhill (2000), voices the opinion that regional strategies should attempt to improve competitiveness of the tourism economy, increase the occurrence of new ventures, and create the right business environment for SME's to improve their quality, diversity, competitiveness and profitability. He identifies the following regional strategies at the micro-economic level:

- Structuring small business finance - the establishment of small business loan funds and the creation of a small business advice or extension service.
- Upgrading standards - refers to the investment in human capital which, by design, should spread knowledge in order to stimulate local innovative development.
- Improving communication channels - In view of the fact that global CRS networks are targeted at travel intermediaries who prefer to deal with players who provide security of bookings, instant confirmation and the certainty of receiving commissions, it is not unusual to find that most, if not all, of the local SME's loose out on the international market. Wanhill (2000) suggests the implementation of a fully networked computerised reservation system which will generate for SME's the additional benefits of:
 - a data base to assist with direct mail campaigns;
 - assistance in monitoring occupancy;
 - provision of information on source markets;
 - evaluation of improvements to packaging and pricing to meet changes in demand; and

- enhanced sales promotion through recommendations from satisfied customers.
- Raising the level of market intelligence – essential if SME's are to plan their business and target their marketing expenditure more effectively (Wanhill, 2000).

5.6.2.3 Support for regionalism as a strategy

In his discussion of regional development in the United Kingdom, Lynch (1999) describes the establishment of the Labour Government's English Regional Development Agencies (RDA's) as evolutionary. RDA's were modelled on the existing development agencies of Scotland and Wales (established in 1975) and were a response to pressures from the English regions for similar bodies to allow the regions to compete with Scotland and Wales for inward investment as well as part of a broader strategy for regional economic development in England. The RDA's have five functions:

- economic development and regeneration;
- the promotion of business efficiency, investment and competitiveness;
- the promotion of employment;
- to enhance development of employment skills in the region; and
- to contribute to sustainable development.

Support for the above-mentioned international trend comes from the Department of Trade and Industry (2000:28). On the question of whether policies and programmes in support of entrepreneurship should be undertaken at national, provincial or local level, the report reaches the following conclusion:

Policies that fail to take account of regional and local differences are less likely to be successful. Local initiatives are able to better tailor activities to local needs, to concentrate resources where most required and to mobilize a wide range of actors relevant to entrepreneurship. Major programmes to support entrepreneurship are best designed and implemented by local authorities. Furthermore, a number of acute social problems – such as distressed urban areas, and unemployment

among minorities – are highly concentrated geographically and can greatly benefit from a local response to stimulate entrepreneurship.

The concept of regionalism is further supported by Bloch and Daze (2000, cited in Rogerson, 2004e:767) who express the opinion that a critical component of the support strategy adopted by the government of South Africa during the period 1994 to 2003 was the establishment of a set of decentralised or localised support service centres (LSC's), which later became styled as local business service centres or LBSC's. The LBSC's were to provide a variety of real and appropriate services to SMME's.

For groups of survivalist enterprise at the coal face of poverty alleviation, the most effective level of policy intervention and support is at the local level rather than at the national scale of government (Rogerson, 1999). For groups of urban survivalist enterprises, the local economic development activities of local government can exert a profound impact on the economic health of these kinds of enterprises and on the wider coping strategies of poor households (Lund, 1998).

Elliot (1997, cited in Telfer, 2002:126) argues that the tourism industry could not survive without government as it has the ability to provide the political stability, security and legal and financial framework which tourism requires. Government agencies use geographical scales (national, regional and local) in the application of tourism planning. Theoretically national policies set a broad agenda for development that directly shapes regional-level policies whilst they in turn form a framework for locally implemented plans as in a hierarchy. As the scale of intervention diminishes, so the level of detail in planning proposals increases (Williams, 1998:133, cited in Telfer, 2002:126). Regional destinations can also be guided by environmental factors such as the need to protect a fragile area from tourism development.

Regional tourism plans contain some of the same overriding concepts as national tourism plans, as well as some distinctive elements. Themes which are carried from national level plans to regional level plans include:

- concerns for the impact of tourism upon regional economies and employment patterns;
 - development of infrastructure;
 - further spatial structuring in which tourism localities within regions are identified; and
 - regional level marketing and promotion.
- (Telfer, 2002:127)

Three distinctive aspects which are often included in regional plans are:

- a greater concern over environmental impacts;
- more detailed consideration of the type and location of visitor attractions along with supporting services, such as accommodation; and
- greater recognition of visitor management strategies.

Coalders (2000:187, cited in Telfer, 2002:122) states that in regional economic planning the emphasis has been on attracting foreign industries capable of creating regional growth poles and serving as a pull-factor for other economic activities. This, however, exposed regions to global economic trends and can put them in a dependent situation. This type of vulnerability to multi-national tourism companies is often identified in the tourism literature as a negative impact of tourism and calls have been made for more locally controlled development. Notwithstanding the many examples which can be used to illustrate tourism being used as a tool to help develop a region, Telfer (2002:130) acknowledges that in many cases government takes an active role in the development process, but it should not neglect the role played by the private sector and small entrepreneurs.

5.6.3 Examples of regionalism

International tourism development policy for regional development is demonstrated in Europe by the European Union (EU) that has used financial instruments to strengthen economic and social cohesion within the EU and to reduce the disparities between the regions of the EU. In other parts of the world, tourism also serves as a regional development tool.

At a national level, the objectives of the Thailand national growth policies have been to foster growth throughout the country by selectively designating key development areas (Pearce, 1989, cited in Telfer, 2002:128). In the UK, both national and regional tourist boards have tried to extend the benefits of tourism to all areas of the country. The UK government and the British Tourist Authority (BTA) aim to encourage the tourism industry to promote tourism to all areas of the country and, more specifically, to disperse visitors to areas of high unemployment and urban decay. In Canada, the Canadian Tourism Commission (CTC) acts in partnership with the tourism businesses and associations, provincial and territorial governments and the government of Canada. The CTC has the authority to plan, direct, manage and implement programmes to generate and promote tourism from across the country (Goeldner *et al.*, 2000 cited in Telfer, 2002:128).

Dahles (1997:32) concludes that tourism development cannot rely exclusively on free-market principles, but has to be supported and to a certain extent controlled by the state. If local participation is not increased, the likelihood of domination of the tourism sector by trans-nationals increases.

Instead of focusing on regulatory measures, governments need to facilitate tourism development by making available public goods like credit facilities, education and information, necessary for entrepreneurs to generate a tourism product and, to set out rules and legal measures without stifling the entrepreneurial initiatives.

The foregoing exposition serves to explain the traditional roles played by both national and sub-national (regional) government in using tourism as a development tool. Acknowledging the important role that SMMTE's play in regional development, a search of the literature fails to uncover specific supply-side planning for the development of tourism related SME's.

5.7 TOWARDS FORMULATING A STRATEGY FOR THE DEVELOPMENT OF TOURISM-RELATED SME's

With a view to the construction of a model for the development of tourism-related SMME's, the following aspects of development planning will have to be taken into consideration:

- Planning should include the component of operational planning.
- The strategy adopted should be economic by nature and incorporate the concepts of sustainability, community involvement and total quality management.
- Planning should be decentralised and take place at regional and local levels, within the policy guidelines set nationally and internationally.
- Planning should make provision for government intervention.
- Planning should be strategic.
- The concept of regionalism should be applied.

Since this study has to do with planning for SME development (as measured by job creation), planning represents the fulcrum around which the strategy developed in Chapter nine revolves. The concept "sustainability" will be achieved when long-term jobs are created. "Community involvement" will be achieved by assuring that the planning function includes the needs and aspirations of the local (entrepreneurial) community. This will be established during the empirical study the results of which are discussed in Chapter eight. "Total Quality Management" will be achieved when the model developed in Chapter nine is strategic in nature and incorporates a vertical and horizontal integration of the planning stages with all the key elements and can be adjusted on the basis of results obtained.

The strategy will also acknowledge the need for local government intervention (revisited in the next chapter) and will include the concept of Regionalism, but within the bounds of policy set at the International and national levels of government.

5.8 SUMMARY

In this chapter it was pointed out that, although used interchangeably, “policy” is first and foremost a political activity, while “planning” implies a future oriented policy implementation process which can occur in a number of forms, structures, scales and time-scales. Furthermore, planning is important if one wishes to obtain, among others, the full range of economic benefits associated with the tourism industry.

The traditional approaches to tourism planning have not focused on the broader components of the tourism industry but have tended to concentrate on land usage only. Dissatisfaction with the traditional approaches has led to a search for new approaches, particularly those that emphasise the need to decentralise planning. Although there does not seem to be a definitive approach to planning, more modern approaches attempt to incorporate the concepts of sustainability, community involvement and total quality management.

Furthermore, it is noted that planning takes place at different levels ranging from International to local levels. Decisions taken at the international, supra-national, and national levels constitute “policy”, while decisions taken at regional and local levels constitute “planning”, and particularly the operational component thereof. Considering the diversity of South Africa as a country as well as the complexity of its vastly differing regional structures and natural resources, the argument for more regional and local involvement in tourism planning is very powerful.

In considering any form of tourism planning it is of cardinal importance to take into account the concept of “regionalism” and the role which should be played by regional and local government.

The study has successfully differentiated between “planning” and “policy” and has established who should be responsible for the planning function and at what level it should be done. Accepting the fact that the tourism industry in developing countries function under conditions of imperfect competition and that intervention is necessary, the next chapter provides a critical analyses of the role that is and can be played by government in the tourism industry.

Chapter 6

THE ROLE OF GOVERNMENT IN THE SOUTH AFRICAN TOURISM INDUSTRY

6.1 INTRODUCTION

Since public policy is first and foremost a political activity, it should be seen as a consequence of the political environment, values and ideologies, the distribution of power, institutional frameworks, and of decision-making processes (Simeon 1976; Hall & Jenkins, 1995; Elliot, 1997).

The objective of this chapter is to analyse the existing government structure for tourism in order to determine if it is conducive to the promotion and development of SME's that operate in the sector and to identify bottlenecks in the operational planning phase (Objective No. 4). This is necessary in order to establish specific standards and requirements for a regional development strategy.

The importance of this chapter to the study also lies in the fact that it determines the role which government currently plays in the South African tourism industry and identifies what "bottlenecks" exist that hinder the government from fulfilling the role it should be playing. Government's role and the interventions required will be included in the strategy developed in Chapter nine.

The objective of this chapter will be achieved firstly, by examining the structure of the tourism industry in South Africa and, secondly, by analysing the role that the different spheres of government play in the policy-making, planning and implementation of central government's tourism objectives.

This will be followed by an overview of the Eden District Municipality (EDM) (the study area), and an examination of alternative organisational options available to government to facilitate tourism development within the EDM.

6.2 THE ORGANISATION OF TOURISM IN SOUTH AFRICA

According to McIntosh, Goeldner and Ritchie (1995:71), the organisation of tourism can be affected by the following classification:

- geographically – either international or national;
- by ownership – government owned or as parastatal;
- by function or type of activity – for example, marketing or development;
- by industry – for example, accommodation, transport, tour operators; and
- by motive or purpose.

Figure 6.1 illustrates how the tourism industry in South Africa is organised. The highlighted sections represent those spheres of government in which this study is interested.

6.2.1 International organisations

Examples include:

- World Tourism Organisation (WTO) – the leading international organisation that concerns itself with international tourism policy issues. It also provides practical information for the tourism industry. It is an operative rather than a deliberative body. It is based on the premise that governments have an important role to play in the tourism industry and it helps nations worldwide to maximize the positive impacts of tourism such as job creation, new infrastructure and foreign exchange earnings. It also advises these nations on how to minimize negative environmental and social impacts.
- World Travel and Tourism Council (WTTC) – the Global Business Leader's Forum of Travel and Tourism, composed of chief executives from all sectors of the travel and tourism industry, including accommodation, catering, cruises, entertainment, recreation, transportation and other travel-related industries.
- International Air Transport Association (IATA) – the prime vehicle for inter-airline cooperation in promoting safe, reliable, secure and economical air services for the benefit of the world's countries.

- International Civil Aviation Organisation (ICAO) – an organisation of governments that agree to promote civil aviation on a global scale (Lubbe, 2003:175).

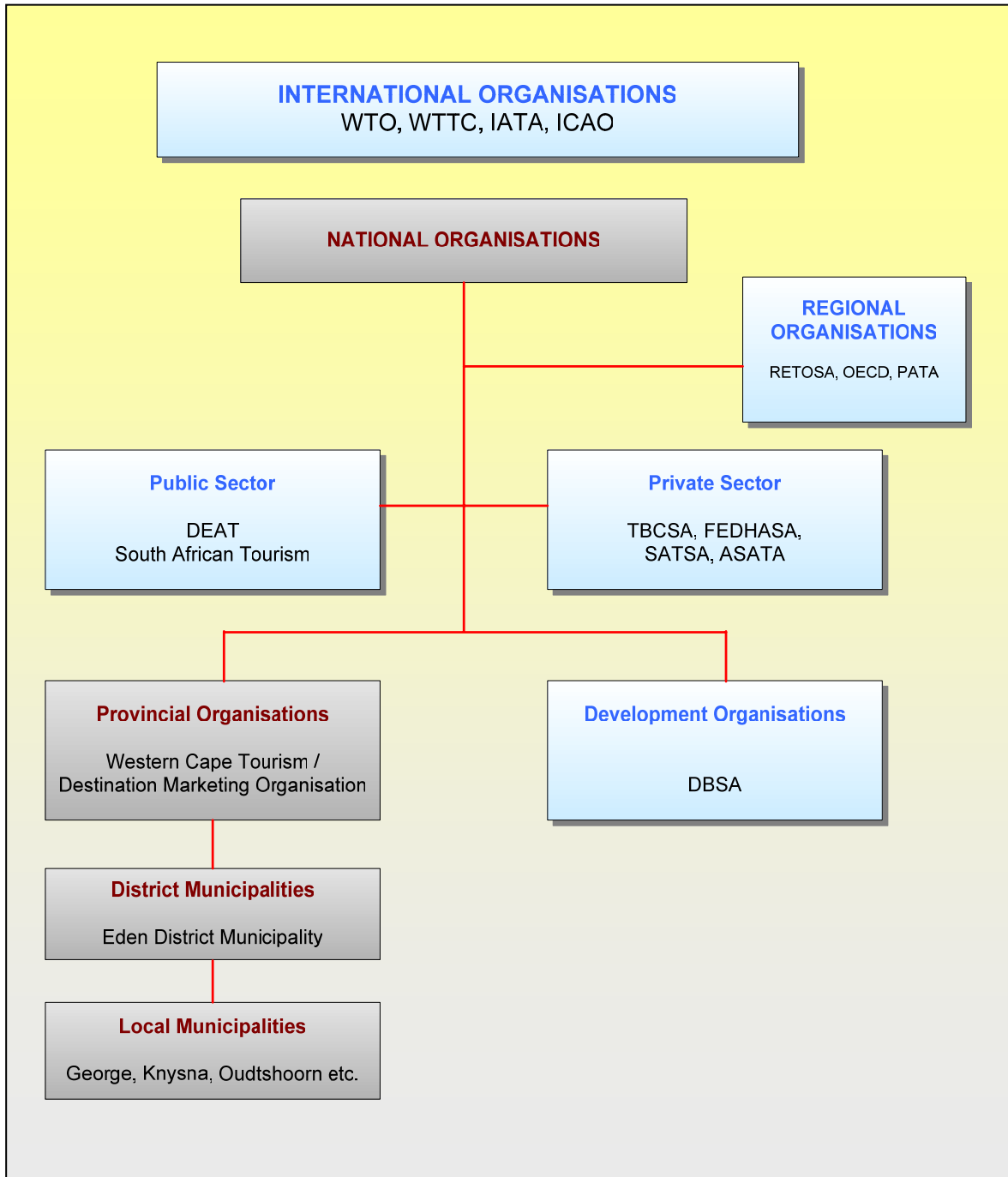


Figure 6.1: The organisation of the tourism industry in South Africa

6.2.2 Regional international tourism organisations

Examples include:

- Regional Tourism Organisation of Southern Africa (RETOSA) – a Southern African tourism cooperation whose purpose is to promote the combined tourism interest of its member states. Its mandate is to market and promote the region in close cooperation with the region’s national tourist organisations and the private sector.
- Organisation for Economic Cooperation and Development (OECD) – an organisation of 30 member countries (mostly developed countries) that share a commitment to democratic government and the market economy.
- Pacific Asia Travel Association (PATA) - the recognised authority on Pacific Asia travel and tourism. It provides marketing, research and educational opportunities to a membership of government tourist offices, airlines, hotels, travel agencies, tour operators and related companies (Lubbe, 2003:177).

6.2.3 National tourism organisations

The National Tourism Organisation (NTO) is typically the central body responsible for the organisation, development and operation of a country’s tourism industry (Keyser, 2003:209). It organises tourism promotion at a national level, coordinates the activities of all tourism sectors, and could provide national coordination for regional tourism development.

The WTO identifies government functions for controlling the development of tourism as the coordination of tourism activities, legislation and regulation, planning, and finance, Keyser (2003:210) breaks these functions down into the following range of activities:

- policy formulation;
- international liaison;
- international marketing;
- domestic marketing and the promotion of domestic tourism;
- awareness creation;

- human resource development;
- market research and statistics collection;
- standards promotion and regulation;
- administration of grants and investment incentives;
- liaison with government and government departments;
- tourism development planning;
- facilitation of tourist movement; and
- environmental protection.

Note that all the functions are not always fulfilled as many NTO's tend to focus their resources on a few viable functions. The national government is responsible for the development and promotion of tourism at the national level and achieves these goals through public sector bodies and private sector bodies.

6.2.3.1 Public sector bodies

Examples include:

- Department of Environment Affairs and Tourism (DEAT) – a public sector body that aims to develop the tourism sector as a national priority in a sustainable and acceptable manner so that it will significantly contribute to the improvement of the quality of life for every South African. It is responsible for national tourism policy, regulation and development.
- South African Tourism – the national agency (NTO) responsible for the international marketing of South Africa as a preferred tourist destination. Its marketing strategy aims to promote and market South Africa's scenic beauty, diverse wildlife, eco-tourism and diversity of cultures and heritage, while also striving to realize the country's potential in terms of sport, adventure, and conference and incentive tourism.

Coordination of the various tourism structures is needed to ensure that policies and strategies are aligned and to prevent the wasting of resources. DEAT makes use of two coordinating structures to achieve this goal:

- The Minmec: Tourism is a forum comprising the national Minister of Environmental Affairs and Tourism and the members of the Executive Councils (MEC's) responsible for tourism in the nine provinces. This is where the relationship between national and provincial policy matters is decided.
- The Miptec: Tourism (Minmec Interprovincial Technical Committee) - a structure that brings together national and provincial tourism officials (heads of government departments and CEO's of tourism authorities) to coordinate provincial and national tourism affairs, in support of Minmec: Tourism (Keyser, 2003:214).

6.2.3.2 Private sector bodies

Examples include:

- Tourism Business Council of South Africa (TBCSA) – an umbrella body representing the business sector in tourism. It has entered into a formal agreement with the government to ensure that South Africa's tourism policy will be a joint undertaking between the government and the private sector, represented by the TBCSA.
- Federated Hospitality Association of South Africa (FEDHASA) – an umbrella body representing the South African Hospitality Industry as the private sector's voice which is recognized by all decision-makers and policy-makers in government and industry.
- The South African Tourist Services Association (SATSA) – the foremost body representing the private sector of the tourism industry.
- The Association of South African Travel Agents (ASATA) – a forum in the tourism industry that provides professional service with security for both members and their clients.
(Lubbe, 2003:182).

6.2.4 Developmental organisations

The Development Bank of South Africa (DBSA) seeks to meet the needs of the new South Africa and the Southern African Development Community (SADC) region as a whole.

6.2.5 Provincial tourism organisations

South Africa is divided into nine provinces and thus, apart from a national tourism body, it also has provincial tourism bodies that represent their respective provinces in national matters. They also have the right to institute innovations that are appropriate to their specific provincial cultures and resources.

Since tourism is a concurrent national and provincial legislative competence, both spheres have joint responsibility for the development and marketing of tourism in South Africa. Each province has its own ministry and department of tourism. Each province has the power to pass and implement legislation on tourism in the province, but in doing so, it must cooperate with the national government and other national tourism institutions (Keyser, 2003:213).

What was previously known as the Western Cape Tourism Board has been dissolved and replaced by a Destination Marketing Organisation (DMO) by the Western Cape Tourism Act, 2004 (Act No. 1 of 2004). According to this Act, the DMO, without infringing on the rights of municipalities regarding local tourism, must develop and promote the province as a tourist destination. The Western Cape DMO has adopted Western Cape Routes Unlimited as the brand name for itself.

6.2.6 District Municipalities

The nine provinces are further divided into a number of districts. The District Municipalities represent the local towns and/or cities at the provincial level and often includes tourism as a related field. In the Southern Cape, this function is fulfilled by the Eden District Municipality.

6.2.7 Local Municipalities

Local authorities are important contributors to tourism success, in accordance with the community-driven tourism philosophy, and in many instances provide tourists with information via the establishment of local tourism centres or bureaus. The said Western Cape Tourism Act makes provision for the recognition and accreditation of local municipal tourism organisations by the provincial DMO.

6.3 THE ROLE OF GOVERNMENT IN TOURISM

South Africa's constitution (Chapter 3: Co-operative Government) constitutes government as national, provincial and local spheres of government. It describes these spheres as distinctive, interdependent and interrelated. The constitution spells out principles for co-operative governance, including that the spheres should coordinate their actions and legislation with one another.

Provinces have legislative and executive powers parallel to the national sphere over, amongst other areas:

- tourism; and
- regional planning and development.

These powers can be exercised to the extent that provinces have the administrative capacity to assume effective responsibilities.

6.3.1 White Paper on the development and promotion of tourism in South Africa

Since 1994, new policy frameworks have emerged to support the development and changed role of tourism. Most important are the appearance in 1996 of a White Paper on the Development and Promotion of Tourism in South Africa, and in 1998 the Tourism in GEAR Strategy. The White Paper on Tourism and the Tourism in GEAR Strategy link together to provide the key policy foundations for developing the tourism industry in South Africa (Rogerson & Visser, 2004:6).

Rogerson and Visser (2004:8) go on to state that taken together, the White Paper and the Tourism in GEAR document signal the need for a collaborative approach within which tourism should be led by government and driven by the private sector, and be community-based and labour-conscious.

Part VI of the White Paper on Tourism identifies the key players in South African tourism and discusses the following role that each should play.

The national government will play five key roles in the development and promotion of the tourism industry:

- facilitation and implementation;
- coordination;
- planning and policy making;
- regulation and monitoring; and
- development promotion.

The provincial tourism organisations are key players in the tourism industry. Schedule 6 of the Constitution makes specific provision for tourism to be a provincial responsibility. The provincial government has responsibility for all the functions as indicated at the national government level with a few exceptions, additions and modifications. Provincial tourism organisations will formulate tourism policies which are applicable to their areas, in accordance with the national policy. They will also be partners in the implementation of relevant national policies, strategies and objectives.

At the local government level, specific provincial functions of policy implementation, environmental planning and land-use, product development, marketing and promotion are further supported.

Other role players identified by the White Paper (May 1996) include the private sector, labour, communities, women, NGO's, media, and conservation agencies.

Support for this approach comes from Harrison and Price (1996:8), who report that evidence from case studies suggest that, along with access to local resources and a high level of community consensus, communities in less developed regions have adapted and adopted to tourism more successfully when in productive and sympathetic partnership with external agencies, including NGO's and players in the private sector.

It is important to note at this stage that nowhere does the White Paper, in stipulating the roles to be played by the various role players, give attention to the need to develop SMMTE's. The closest that it comes to do this is in the identification of the roles that women can play: ... *It actively assists in shaping a responsible tourism industry in South Africa as policy-makers, entrepreneurs, entertainers, travel agents, tour guides, restaurateurs, workers, managers, guest house operators and other leading roles in the tourism business environment.*

The most recent addition to national government policy arsenal has been the publication in 2002 of the "Responsible Tourism Guidelines", which was subsequently reworked into the "Responsible Tourism Handbook: A Guide to Good Practice for Tourism Operators". This publication emphasises the concept of sustainable tourism development.

6.3.2 Local Government: Municipal Structures Act

The structure and functions of local government are governed by the Municipal Structures Act, 1998 (Act No 117 of 1998). It provides a framework within which the private sector and municipalities can work together to promote common interests. Of particular interest is the provision for development-orientated planning and the need for development action to be aligned with integrated development plans.

The key policy document that should be considered is the Local Economic Development (LED) Policy Paper - Second Draft (September 2000). It seeks to clarify the problems, visions and objectives, interventions and institutional requirements that all spheres of government will address to make LED a reality in

municipalities (IDP Guide Pack - Guide V, 2000:23). LED is concerned with the redistribution of challenges, addressing socio-economic objectives and establishing linkages and complementarity between large-scale and small-scale projects in a given area to link government's developmental and economic objectives.

6.3.3 Local Government: Municipal Systems Act

The Municipal Systems Act, 2000 (Act No 32 of 2000), gives effect to the country's vision of developing local government and building on the constitutional provisions for basic development rights. The Act elaborates on the core principles, mechanisms, and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of communities within the municipal area, working in partnership with the municipality's political and administrative structures (Glazewski, 2000:252). It provides the primary statutory context for the preparation of an *Integrated Development Plan* (IDP) for government at the provincial, district and local town levels.

6.3.4 Integrated Development Planning (IDP)

Integrated Development Planning (IDP) is one of the key tools for local government to tackle its development role. The IDP Guide Pack – (Guide V, 2000:12) defines integrated development planning as *... a participatory planning process aimed at integrating sectoral strategies, in order to support the optimal allocation of resources between sectors and geographic areas and across the population in a manner that promotes sustainable growth, equity and the empowerment of the poor and the marginalized.*

In the South African situation, LED is regarded as an important outcome of the integrated development planning (IDP) process. Rogerson (2004b:399) states that tourism is growing in significance as a lead sector LED in many developing countries, including South Africa.

The White Paper on Local Government (WPLG, March 1998) requires a mutual alignment, rather than a one-directional top-down or bottom-up alignment. In this alignment process, local level planning has to be informed by national and/or provincial policies, principles, strategies and standards, but the programmes of the other spheres of government must be integrated and coordinated at the local level with due consideration for local needs, priorities and resources. This applies to sectoral programmes as well as to multi-sectoral strategies.

The national sphere should provide a framework for sectoral, provincial and municipal planning and for coordination and prioritisation of programmes and budgets between sectors and spheres in line with the framework.

The provincial sphere should provide a more specific framework, i.e. a joint point of reference for all sector departments and all municipalities.

The local government sphere has to elaborate a five-year IDP as part of an integrated system of planning and delivery, which serves as a frame for all development activities within the municipal area (IDP Guide Pack – Guide 1, 2000).

Sectors are defined as fields of intervention aimed either at specific human needs (such as food, housing, water, health, education, transport, recreation) or as specific ways of satisfying human needs (such as agriculture, trade, mining, tourism). Tourism takes its place in IDP as one such sector.

Each of these sectors has a national (and in some cases provincial) department with policy and programmes that can be taken into consideration in the course of the local planning process. However, it should be noted that local circumstances differ from one municipal area to the next. Therefore, in each local context, planning decisions that relate to sectoral contributions should be directly informed by the specific local context.

Many tourism functions are provincial competencies. Aspects such as policy development and implementation, environmental planning, product development,

marketing and promotion are particularly relevant. Generally, municipalities merely support specific provincial tourism functions although local tourism is mentioned as a local government competency in the Constitution.

Therefore, in instances where tourism is significant in the municipal area or where tourism development potentials are high, the local tourism function and the general functions of local government will have a bearing on local tourism planning (IDP Guide Pack – Guide V, 2000:50).

It is accepted that the word “municipalities” refers to both the “local sphere” and the “district sphere” of governments. If there are specific tourism resources in an area, municipalities have a responsibility to play an active role in specific tourism-related activities and functions including planning for the provision and maintenance of tourist services, sites and attractions.

Local tourism strategies should be pursued as part of a multi-sectoral approach and tourism should only emerge as the dominant economic generator where there is remarkable local potential. It is, therefore, vital that planning for tourism is aligned with the planning of all other sectors affected within the IDP process. For alignment to be achieved, national and provincial policy guidelines together with the specific context would influence the formulation of a local tourism strategy. In particular, aspects such as possibilities for poverty reduction, employment generation and empowerment of women, and the protection of the local physical and cultural environment, can form part of the IDP process (IDP Guide Pack – Guide V, 2000:52).

6.3.5 Shortcomings of existing structures

During the investigation into the governmental organisation for tourism affairs, various interviews with IDP managers in the Southern Cape revealed the following concerns:

- lack of cooperation between the various spheres of government;

- no structures exist to encourage cooperation between different spheres of government;
- plans are rarely implemented;
- no means exist to measure successful implementation of strategies; and
- the establishment, structure and workings of the newly established Destination Marketing Organisation (DMO) in the Western Cape.

Similar findings were made by Keyser (2005) in an investigation in the Eastern Cape during 2004. Key findings of this investigation include the following:

- conflict existed between the various spheres of government;
- lack of performance measurement tools;
- insufficient funding by local municipalities for tourism *per se*;
- lack of a budget for tourism was given as the reason why local tourism offices (LTO's) do not get involved in developmental activities (e.g. SMME support);
- lack of communication between private / public organisations;
- local / regional government spheres are not aware of what their responsibilities or roles should be;
- confusion regarding the roles between district and local spheres of government; and
- the said Municipal Systems Act does not clearly define the duties of the different spheres of government.

It is interesting to note that tourism is the only government function which is described as the responsibility of all three spheres of government (national, provincial and local). Nowhere is reference made to who should be responsible for the planning function. This might serve as an explanation of the confusion that seems to exist within the various spheres of government with respect to who is responsible for what. The situation is further exacerbated by the apparent confusion that exists in the Department of Provincial and Local Government about the same problem.

This is born out by Adam and Cronje (2002:1) who observed that, ... *despite concerted support measures very few municipalities complied with the legal requirements as specified in the Regulations to the MSA for the first round of IDP's, reflecting all the core components as set out in Section 26 of the Municipal Systems Act, 2000 (Act No. 32 of 2000), to have been completed and adopted by the municipal council by the 31st of March 2002.*

Commenting on the status of the Eden District Municipality's IDP, Adam and Cronje (2002: Section 3 page 64) express the opinion that the version presented to the DPLG was incomplete and missed critical aspects of the required information. It would, therefore, have been inappropriate for council (EDM) to have adopted this IDP.

Most commentators feel that the District Municipality should play a more creative role by providing local government with guidelines and directions instead of just collating the IDP's of individual municipalities.

6.4 REGIONAL GOVERNMENT – EDEN DISTRICT MUNICIPALITY AS A CASE STUDY

The Eden District Municipality (EDM) has prepared the Eden Spatial Development Framework (SDF) as part of their Integrated Development Plan (IDP). The main objective of the SDF was to address the special implications of the IDP and, in particular, promote the sustainable development throughout the district. As part of the IDP, the SDF provides a framework within which the EDM, local municipalities and communities share responsibility for coordination of development options.

The following sections reflect the role played by the EDM in so far as it affects the local tourism industry.

6.4.1 Composition

The Eden District Municipality comprises the following municipalities:

- Kannaland Municipality;
- Langeberg Municipality;
- Mossel Bay Municipality;
- George Municipality;
- Oudtshoorn Municipality;
- Plettenberg Bay Municipality; and
- Knysna Municipality.

6.4.2 Demographics

The population of the EDM is mainly distributed in and around the major settlements, with the main concentrations being in and around George, Mossel Bay, Oudtshoorn and Knysna.

The estimated population of the EDM is 454 924, with the major ethnic group being the coloured population, representing some 58% of the total population. The gender structure is almost equal, with 51.2% of the total population being female.

Table 6.1: Current population structure of Eden District Municipality

	% of pop.	Male	Female	Black	Coloured	Asian/ Indian	White	Total
DMA¹²	3.21%	7 174	7 417	756	12 379	6	1 450	14 591
George	29.77%	66 290	69 122	36 934	68 219	351	29 908	135 412
Kannaland	5.27%	11 543	12 424	595	20 253	22	3 097	23 967
Knysna	11.31%	25 355	26 105	16 421	22 713	68	12 258	51 460
Langeberg	9.70%	21 337	22 779	1 781	30 949	43	11 343	44 116
Mossel Bay	15.71%	35 498	35 990	16 206	34 679	254	20 349	71 488
Oudtshoorn	18.62%	40 636	44 052	6 840	64 801	86	12 961	84 688
Plettenberg Bay	6.42%	14 344	14 840	11 067	11 738	99	6 280	29 184
Total	100%	222 181	232 743	90 609	265 734	934	97 647	454 924
<i>Source: EDM Spatial Development Framework, 2003</i>								

Table 6.2 depicts the growth tendencies of the different population groups in the EDM.

¹² DMA is an abbreviation for District Management Area.

Table 6.2: Growth tendencies in the EDM

Ethnic Group	1991	1996	Growth % 1991/96	2001	Growth % 1996/01
Coloured	205 279	227 671	+10.91%	265 734	+16.72%
Black	42 321	57 969	+36.98%	90 609	+56.30%
White	90 395	87 827	-2.84%	97 647	+11.18%
Asian / Indian	unknown	570	unknown	934	+63.86%

Source: EDM Spatial Development Framework, 2003

The increase in the population can be directly related to the following three causes:

- natural growth;
- regional rural-urban migration; and
- inter-regional migration.

The most important reason for population growth in the EDM is the influx of younger Blacks and mainly elderly Whites from other provinces. This tendency holds particular implications for future development planning, as the immigrating Black population mainly consists of economically active young men and woman looking for job opportunities, while the elderly Whites settling in the towns are looking forward to retirement (EDM Spacial Development Framework, 2003).

6.4.3 Tourism as an economic activity

According to the EDM Spatial Development Framework (2003:44), the economic activities in the towns comprising the EDM display two distinct character types. The coastal towns are oriented towards tourism, marine resources and retail activity, while the inland settlements appear more to be farming service centres, although a town like Oudtshoorn fulfils a most important tourism role in the region.

Tourism has been identified as one of the sectors with the largest potential for growth and development in the Western Cape. This is particularly valid in the

EDM, where the unique diversity of communities, cultures and natural resources imply huge potential for sustainable tourism.

An estimated 154 000 foreign visitors visited the region in 1997, which represents an increase of 25% over the previous year.¹³ More than 1 million domestic tourists visited the region in the same year, representing an increase of 3% from 1996 (EDM Spatial Development Framework, 2003:57).

According to Eden's SDF document, to ensure sustainable growth and profitability in the tourism industry, the following challenges need to be faced:

- A substantial portion of the tourism benefits must find its way to the local communities.
- All new developments in the natural environment must qualify as unobtrusive and environment friendly.
- The cultural and natural heritage must be integrated when tourism packages are put together.
- A substantial portion of tourism profits must be re-invested in the maintenance of the cultural and natural resources.
- A strong element of ecological and cultural awareness must be created with tourists in order to ensure sustainability.

In order to meet these challenges, the following vision was developed by the EDM.

VISION

Develop tourism as a sustainable industry, supporting or enhancing marginal industries and contributing significantly to the improvement of the quality of life of all the communities of the EDM.

Source: EDM Spatial Development Framework, 2003:224

¹³ For a more realistic figure, see the researcher's calculations in Annexure 9.

6.4.4 Strategies for tourism development and management

Although an SDF, per definition, essentially addresses the spatial implications of the IDP, holistic governance and management of any area (as is contemplated for the EDM) will also require the implementation of strategies that will not have any spatial implications. Consequently, key issues and proposed strategies and projects are divided into two distinct groups:

- Group 1: Issues / strategies with spatial implications; and
- Group 2: Issues with no spatial implications.

The inclusion of Group 2 strategies implies that the SDF could also serve as a “management framework” for the EDM. The EDM Spatial Development Framework (2003:227) provides a summary of the recommended general strategies for tourism development that have **spatial implications**. These strategies are shown in Table 6.3.

The above Group 1 strategies are followed by a summary of comments and recommendations in respect of tourism from the local municipal IDP’s. No mention is made of tourism with respect to Group 2 strategies (those issues with no spatial implications).

The foregoing observation and comments made by the local IDP managers raised the following question: Is local and regional government correctly structured for achieving maximum efficiency within the tourism function?

6.5 ORGANISING FOR TOURISM

Keyser (2005) identifies the following organisational structure options for tourism within provincial, regional and local governments:

- Mainstream Government Model – Municipal Department / Division. This model is essentially found in smaller municipalities where the tourism

Table 6.3: Strategies for tourism development and management

Key issue description	Objective	Strategies
No 26.1.3a <i>Place-specific development of tourism infrastructure</i>	Promote the development of tourist infrastructure that will enhance tourism in general and conform to place-specific architectural, environmental and aesthetic requirements	Ensure application of place-specific planning and design guidelines in tourism development Ensure effective upgrading and maintenance of primary tourist routes Develop tourist facilities in accordance with place-specific design and planning guidelines Regulate tourism development and tourism land use Make optimal use of existing infrastructure
No 26.1.3b <i>Integrated tourism management</i>	Ensure cost-effective management of all facets of tourism at all levels	Establish effective tourism structures throughout the EDM Promote privatization of tourism-related infrastructure and tourism management Integrate tourism and other sectors to provide sustainable access to the tourism opportunities inherent to the various industries and sectors Facilitate sustainable development and utilization of the full spectrum of available recreational opportunities Ensure efficient management of tourism organisations and bureaux
No 26.1.3c <i>Community development through tourism</i>	Promote tourism as a community-based and community-driven industry with a substantial potential for providing direct and indirect benefit to the community	Involve entire communities in tourism. Prevent negative effects of tourism and create benefits for the broad community. Ensure direct or indirect benefit to the total community. Introduce formal skills transfer and educational programmes Promote community involvement and representation in tourism forums

Source: Adapted from EDM Spatial Development Framework, 2003:228

officer is also one of the municipal employees and is often accommodated in the municipal offices or building. Annexure 4 shows such a model.

- Differentiated Model – Municipal Department plus External Mechanism (a) with control (for example, Cape Town Routes Unlimited) and (b) without control (a Section 21 company, the private sector or associations). Annexure 5 and Annexure 6 show such models.
- Outsourced Model with Control – Municipal Entity (for example, KwaZulu-Natal and Gauteng provinces). Annexure 7 shows such a model.
- Outsourced Model without Control – Independent Organisation (Section 21 Company, independent organisation, Trust or association). Annexure 8 shows such a model.

An examination of the municipalities of the Southern Cape and the Eden District Municipality itself revealed that very few spheres appear to have adopted a structure dedicated to the development of tourism. This is possibly due to the fact that a clear understanding of tourism planning seems to be lacking among participating stakeholders.

Most organisations see the functions of tourism planning (and develop structures) to:

- promote destination marketing;
- provide major infrastructure;
- provide guidelines for development;
- advertising and promotion;
- encourage public / private partnerships; and
- coordinate local government efforts and ensure alignment with objectives of district, provincial and national government.

The above perceived functions, almost exclusively, represent intervention/encouragement of **demand-side** functions.

It is necessary to distinguish between functions which can be better performed by private enterprise and functions which can only be performed by local, district and provincial government. The reader is referred to the Tinbergen Institute model of Entrepreneurship (see Section 7.3 for a detailed discussion of this model) where **supply-side** intervention / manipulation becomes a necessity, especially in South Africa where our stated aim is to provide an advantage to previously disadvantaged individuals and communities.

6.6 TOWARDS FORMULATING A STRATEGY FOR THE DEVELOPMENT OF TOURISM-RELATED SME'S

The following aspects regarding the district and local government structures will be addressed by the strategic development framework for tourism-related SME's.

- A recommendation will be made regarding the establishment of a suitable structure at both district and local level which can facilitate SME development.
- Current government intervention strategies address the demand-side only. District and local spheres of government need to also address supply-side issues.
- The district municipality, in its IDP plan, needs to identify Group 2 Issues – those with no spatial implications - and not only consider Group 1 Issues.
- The special demographics of Eden need to be included or addressed in the strategy developed in Chapter nine.

6.7 SUMMARY

This chapter has analysed existing government structures that influence the encouragement and development of the tourism sector of the economy and has further identified bottlenecks that hinder the process within the Southern Cape. These include:

- local tourism bureaux are controlled by stakeholders who are in established tourism-related businesses and prefer to promote their collective good fortune and as such are not development oriented;
- district structures are not operational in the Southern Cape as a result of poor policy formulation and poor coordination;
- this coordination seems to take place nationally in conjunction with Environmental affairs, provincially in conjunction with Economic affairs, and locally in conjunction with Public Relations; and
- the concept of “Development” is not clearly understood by all role-players and each participant has his own definition of what the term implies.

Having established the link between tourism-related small businesses, SME’s in general, the entrepreneurial process, and the need for government intervention in policy development and planning implementation, Chapter seven will pursue this line of thought further by analysing various approaches to the development of entrepreneurship as a means to stimulating tourism-related SME’s and concurrent job creation.

Chapter 7

ENTREPRENEURSHIP DEVELOPMENT MODELS

7.1 INTRODUCTION

The fact that SMMTE's, together with local community members, can also develop locally available resources and transform and package these resources and local cultural elements into attractive and desirable tourism products, brings Jithendram and Baum (2001:41) to the conclusion that development and facilitation of local entrepreneurship seem to be major challenges for the tourism-policy makers who wish to develop sustainability-oriented tourism.

Entrepreneurship is defined in Section 3.4.1 and the relationship between small business and entrepreneurship is discussed in Section 3.4.2. Section 3.4 makes it clear that any strategy for the local development of tourism-related SME's must also take into consideration the development of entrepreneurship and, as such, will have to consider not only entrepreneurship development models in general, but specifically those models which have been designed for South Africa.

The importance of this chapter to the overall study is that it acknowledges the work previously done in the field of entrepreneurship and SME development. It specifically addresses those models that are applicable to South Africa with a view to identifying those aspects and characteristics which apply to the tourism industry in the Southern Cape. The factors that are identified will be used in Chapter nine in the formulation of a strategy for the development of tourism-related SME's.

The objective of this chapter is to evaluate different entrepreneurship development models that pertain to South Africa and that inform the development of a regional framework (Objective No. 5). This will be achieved by:

- examining a model of the process of entrepreneurship;
- by considering a few models which the researcher considers to be pertinent to this study; and
- the identification of those aspects which are considered to be applicable to our main objective – the formulation of a development strategy for small businesses operating in the tourism sector of the Southern Cape.

7.2 ENTREPRENEURSHIP DEVELOPMENT

It has been established that the tourism industry is characterized by a large number of SMMTE's that function in an environment not much unlike that of SME's in general. As a result, they are very much related to the concept of entrepreneurship and before attempting to construct a model of SME development, it becomes necessary to pay attention to models of entrepreneurship development that have already been propagated. This viewpoint is supported by Slabbert and Havenga (2004) who argue that, since SME's are often seen as the "seedbeds" of entrepreneurship or one of the key vehicles of entrepreneurship, small business research and entrepreneurship research are often intertwined.

Lordkipanidze *et al.*, (2005:793) are of the opinion that to facilitate start-ups one has to begin by influencing the supply of potential entrepreneurs. They add that it is important for policy makers to understand where entrepreneurship comes from and what factors affect the supply of entrepreneurship in order to increase it. They go on to express the opinion that the responsibility of encouraging entrepreneurship should lie in the hands of local municipalities involving the local communities, because they are the people who know best what problems and needs exist.

A literature search reveals a dearth of models from all over the world which encourage the development of entrepreneurship. These models tend to be based on one or more of the following components:

- the act of becoming an entrepreneur;
- establishing an environment conducive to entrepreneurship;
- based on characteristics of SME's and entrepreneurs in general;
- the cultivation of entrepreneurial skills;
- management training (support structures); and
- entrepreneurial education.

The main criticism that can be levelled at most of these models is the fact that they are too general and attempt to apply generalizations to all SME's. Few are industry specific or take into consideration industry-specific characteristics.

These differences in models pertaining to stimulate entrepreneurship can be found in the fact that there exists little consensus among academics in the field of entrepreneurship. Verheul *et al.*, (2001:3) sum up the position as follows: *When it comes to defining or measuring entrepreneurship, scholars have proposed a broad array of definitions and measures (Hebert & Link, 1989; Van Praag, 1999). Similarly, the origins and determinants of entrepreneurship span a wide spectrum of theories and explanations (Brock & Evans, 1989; Carree, 1997; Gavron, Cowling, Holtham & Westall, 1998; OECD, 1998; Carree, Van Stel, Thurik & Wennekers, 2001). Finally, the impact of entrepreneurship on economic development is controversial (Baumont, 1990; Thurik, 1996; Audretsch & Thurik, 2000 and 2001; Carree, Van Stel, Thurik, & Wennekers, 2001).*

Furthermore, most models fail to take into consideration the effects, consequences and relationships between entrepreneurs and government intervention, which has been established as necessary in the South African context.

The process of entrepreneurship will now be analysed, taking into account government intervention under circumstances of market imperfection.

7.2.1 Understanding the entrepreneurship process under government intervention

7.2.1.1 Determinants of entrepreneurship

It is generally accepted that policy measures can influence the level of entrepreneurship. It is, therefore, important to understand the determinants of entrepreneurship in order to establish those areas in which government can or should intervene. A government can exert influence on entrepreneurship in different ways:

- directly through specific measures; and
- indirectly through generic measures.

(Verheul, *et al.*, 2001:6).

Verheul, *et al.*, (2001:7) are of the opinion that the determinants of entrepreneurship can be categorized according to:

- the disciplinary approach (psychology studies, sociological studies, and economic studies);
- the level of analysis (micro and macro level of entrepreneurship);
- the discrimination between demand (product market perspective) and supply factors (labour market perspective); and
- a distinction between influences on the actual rate (resulting from the short-term balance of supply and demand) and equilibrium rate of entrepreneurship (determined by the state of economic development).

7.2.1.2 A framework of entrepreneurship determinants

Acknowledging that the determinants of entrepreneurship can be studied from different perspectives, they propose a framework to explain the role of government that incorporates the different disciplinary approaches, levels of analysis, a distinction between the demand and supply side and the distinction between the actual and the equilibrium level of entrepreneurship. This framework is depicted in Figure 7.1.

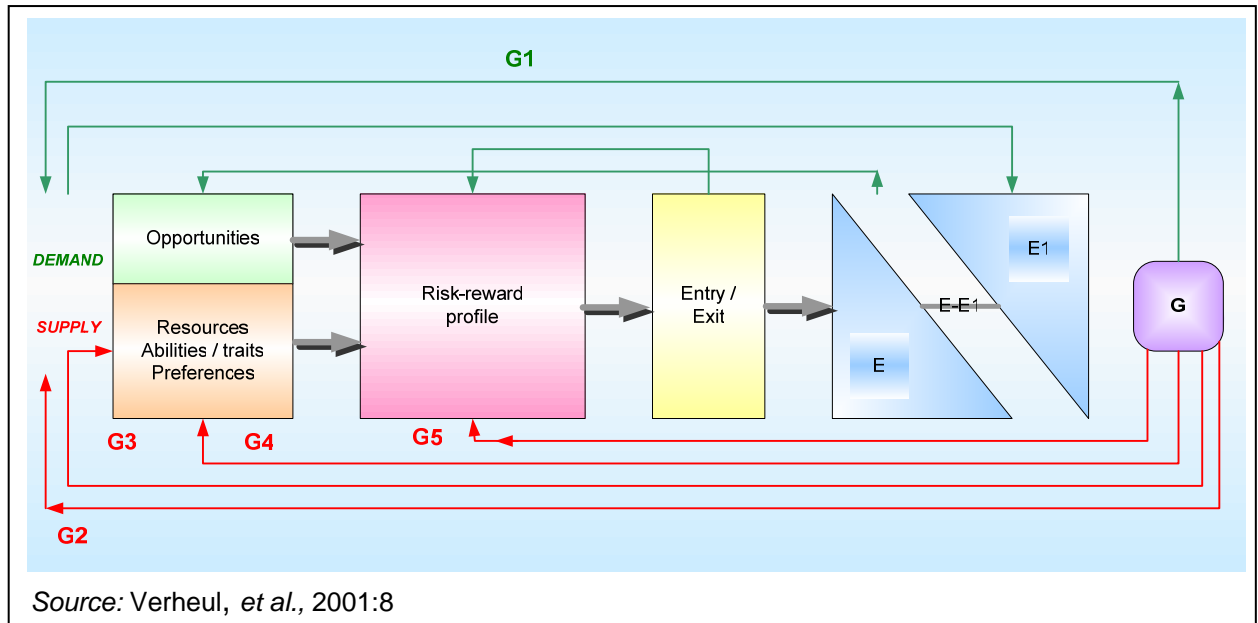


Figure 7.1: Framework of determinants of entrepreneurship

The way that the model works is best explained by the authors (Verheul, et al., 2001:8) as follows:

The process by which the actual rate of entrepreneurship (E) is established involves both macro and micro components. At the demand side, entrepreneurial opportunities are created by the market demand for goods and services, whereas the supply side generates (potential) entrepreneurs that can seize the opportunities provided they have the resources, abilities and preferences to do so. Moreover, personality characteristics need to be in line with the entrepreneurial opportunity. The entrepreneurial decision, i.e., occupational choice, is made at the individual level, taking into account entrepreneurial opportunities and resources, ability, personality traits and preferences of the individual. It is argued that self-employment depends upon conditions as well as skills and spirit of the (potential) entrepreneur.

On the one hand, external resources such as financial and technological resources and human contacts within networks are identified. On the other hand, a distinction is made between different internal characteristics of the individual: ability, personality traits and

preferences, i.e., values and attitudes that influence the occupational decision.

An individual's risk-reward profile represents the process of weighing alternative types of employment and is based on opportunities (environmental characteristics), resources, ability, personality traits and preferences (individual characteristics). The occupational choices of individuals are made on the basis of their risk-reward profile of entrepreneurship versus that of wage employment or unemployment. At the aggregate level, these occupational choices materialize as entry and exit rates of entrepreneurship. Weighing alternative types of employment, people can trade in their wage jobs (or unemployment) for self-employment, i.e., entry into entrepreneurship. They can remain in the type of employment they are currently in or they can decide (or be forced) to exit from self-employment. Entry and exit can also influence the risk-reward profile of entrepreneurship. This is often referred to as the "demonstration effect", where the mere gulfs or dynamics of entry and exit influence the (perceived) attractiveness of self-employment. Other people may be persuaded to start their own business without taking into consideration the possibilities and the financial and/or intellectual capital needed to successfully launch a business.

Together, both static and dynamic occupational decisions determine the actual level of entrepreneurship (E) (see Figure 7.1). The actual rate of entrepreneurship may deviate from the "equilibrium" rate of entrepreneurship (E1) that can be viewed as a long-term equilibrium rate resulting from demand-side forces, such as technological developments and changes in the market structure. This "disequilibria" (E-E1) can be restored either through market forces or by government intervention. On the one hand, the discrepancy between the actual and the optimal rate of entrepreneurship is expressed by a surplus or lack of entrepreneurial opportunities, leading to entry and exit of entrepreneurs, respectively. On the other hand, the government can try and link the actual and "equilibrium" rate of entrepreneurship through intervention.

7.2.1.3 Influencing key determinants

Government can directly or indirectly influence the key determinants of the personal decision with respect to business ownership. Government policies that deal with the (de)-regulation of entry and privatization or collectivization of many services and utilities, have an influence on opportunities to start a business (see arrow G1 in Figure 7.1). The supply of future entrepreneurs and their characteristics can be influenced by, albeit to a small extent, through immigration policy (G2). Resources and abilities, i.e., skills and knowledge, of individuals can be influenced through education, by promoting the availability of capital, i.e., development of the (venture) capital market or financial support, and by provision of information through consulting or counselling (G3). Preferences of individuals are more difficult to influence. To a large extent, they are determined by cultural background and as a result are more difficult to modify. The government can try to influence individual preferences by fostering an entrepreneurial culture. This can be done using the educational system and the media (G4). Moreover, fiscal incentives, subsidies, labour market regulation and bankruptcy legislation co-determine the net rewards and the risks of the various occupational opportunities (G5) (Verheul, *et al.*, 2001).

See Table 3.3 detailing policy recommendations made to the South African government by Bukula (2000:109).

7.2.1.4 Traditional policy options

It is perhaps appropriate at this stage to consider the various policy options that have traditionally been used by governments to influence the process of entrepreneurship. A summary of the traditional policy methods of intervention is given in Table 7.1.

All of the traditional intervention activities identified in Table 7.1 have traditionally been left to national government to implement. However, in the light of the discussion about regionalism (see Section 5.5), the question arises: to what extent should some of these activities be performed by local or regional government?

Table 7.1 also reflects the author's opinion as to what activities should be performed by the different spheres of government (national, regional and/or local government). This hypothesis is tested in Section D of the empirical study in Chapter eight.

Table 7.1: Traditional areas of government intervention

Area	Focus	Activities	Appropriate level of government
Macro (generic)	Concerns the economy as a whole	<ol style="list-style-type: none"> 1. Taxation 2. Labour market regulation 3. Social security 4. Income policy & disparity 	National National National National
Regulation of Dynamism	Refers to balance of entry and exit by regulating entry and exit	<ol style="list-style-type: none"> 1. Establishment legislation (licensing). General and specific 2. Bankruptcy policy (discharge clauses, postponement of debt, influence public attitude) 	National/regional National
Deregulation and Simplification	Focus on stimulating free market and increasing the opportunities for competition	<ol style="list-style-type: none"> 1. Deregulation (relax entry regulations, promote competition, pursue privatisation) 2. Simplification (reduce administrative burdens, reduce compliance costs of legislation) 	National National
Input related Policies	Stimulates resources available to small firms	<ol style="list-style-type: none"> 1. Improving financial conditions (financial assistance through loans, grants and subsidies) 2. Efficiency enhancing policies (business training, provision of information by consultancy and counselling) 3. Specific entrepreneurship support policies (credit guarantee schemes, tax exceptions, subsidized facilities, encouraging networks) 	National Regional National/regional
Sectoral and Problem-specific Policies	Focus on specific sectors (IT, tourism), regions (rural, Southern Cape) or groups (women, PDI)	<ol style="list-style-type: none"> 1. Stimulating entrepreneurship activity among different groups (financial assistance, setting up help-desks, special support for women) 2. Stimulating entrepreneurship activity within geographical areas (developing & maintaining necessary infrastructure) 3. Stimulating R&D and high-tech firms 	Regional National National/regional
Education	Focus away from legislation towards education	<ol style="list-style-type: none"> 1. Government partnerships with secondary and tertiary providers of education 	National

Source: Adapted from Verheul *et al.*, 2001

7.2.1.5 Government intervention

Wanhill (2004:52) favours the idea that the rationale for government intervention lies in the nature of the tourism product, which makes it unlikely that private markets will satisfy a country's tourism policy objectives to produce a balance of facilities that meets the needs of the visitors, benefit the host company, and are considered compatible with the wishes of that same community. He identifies a modern trend of switching emphasis away from large automatic grants to attract inward investment projects to small firms and indigenous development.

Considering international practice, Wanhill (2004:55) finds that, currently, the most common forms of multi-national assistance for SME's in the European Union are the Structured Funds, specifically the European Regional Development Fund (ERDF). They focus mainly on productive investment, infrastructure, and SME development in less favoured regions. Ireland is cited as an example, where a combination of liberalization on the demand side and investment in the product supported by grants and a reduced rate of VAT, has produced a renaissance in Irish tourism since the mid 1980's.

According to Wanhill (2004:56) the objective of financial incentives is to improve returns to capital so as to ensure that market potential may be turned into financially sound projects. He goes on to summarise the structure of investment incentives as given in Table 7.2.

Table 7.2: Structure of investment incentives

Capital cost reductions	Operating cost reductions	Investment security
Capital grants	Direct and indirect tax exemptions or reductions	Guarantee against nationalisation and adverse legislation changes
Soft loans	A labour training subsidy	Repatriation of invested capital, profits, dividends and interest
Equity participation	Subsidised tariffs on key inputs such as energy	
Provision of infrastructure	Special depreciation allowances	Ensuring the availability of trained staff
Provision of land on concessional terms. Tariff exemptions on construction materials	Double taxation or unilateral relief	Provision of work permits for "key" personnel. Availability of technical advice
<i>Source: Wanhill, 2004:56</i>		

Lordkipanidze *et al.*, (2005:793) refer to a perception that entrepreneurial behaviour can be acquired through education and training. Based upon this viewpoint, the local government should target its promotional efforts differently. If entrepreneurial skills are inborn (such as creativity and innovation, a need to achieve, risk taking, etc.), active promotion policies should be focused on provision of incentives like profit and economic benefit. If, instead, only certain entrepreneurial characteristics are inborn, active promotion policies can contribute to the development of entrepreneurship through education and training. But it is also important to target the opportunity factor. This could be done through market research and identifying opportunities in terms of potential service needs in specific areas and then assisting in the establishment of a business to address those needs.

7.2.2 The role of culture

The above framework of determinants of entrepreneurship (Figure 7.1) also identifies the important role played by “culture” on the individual’s decision to become self-employed. According to Verheul *et al.*, (2001:39), by considering Figure 7.1, it can be inferred that national (and in our case, regional) culture may influence the level of entrepreneurship through both the supply and the demand side of entrepreneurship. At the supply side, individual preferences for self employment are likely to be within the cultural domain, since they are often shaped by the nations’ prevailing attitude towards entrepreneurship. Culture may also influence entrepreneurship through the demand side as it (indirectly) influences entrepreneurial opportunities.

According to Pretorius and Van Vuuren (2002:5), culture consists of the shared values, beliefs and norms of a society. Culture is an important contextual factor that affects the number of potential entrepreneurs in a given community, ethnic group, region or country. Pretorius and Van Vuuren (2002:5) are of the opinion that the prevailing culture in South Africa is not supportive to the development of an entrepreneurial orientation.

This raises the following questions:

- If the prevailing culture is not conducive to entrepreneurial development, why bother with policy objectives that are specifically designed to foster entrepreneurship?
- Is it possible to change the culture of a whole group or ethnic population?
- If this is possible, how long will it take and what should be done in the interim period?
- If the cultural disposition needs to be addressed, can it be done effectively on a national basis? Or does the South African multi-cultural composition require that it be dealt with at a regional or local level?
- Can any model of entrepreneurship development in South Africa afford not to take into consideration the effects of local culture on entrepreneurship development?
- Could this “culture exclusion” be regarded as a form of market failure and consequently mitigate in favour of local government intervention?

These questions are addressed in the following sections of this chapter with a view to incorporating those aspects that are relevant to the case study into the strategy developed in Chapter nine.

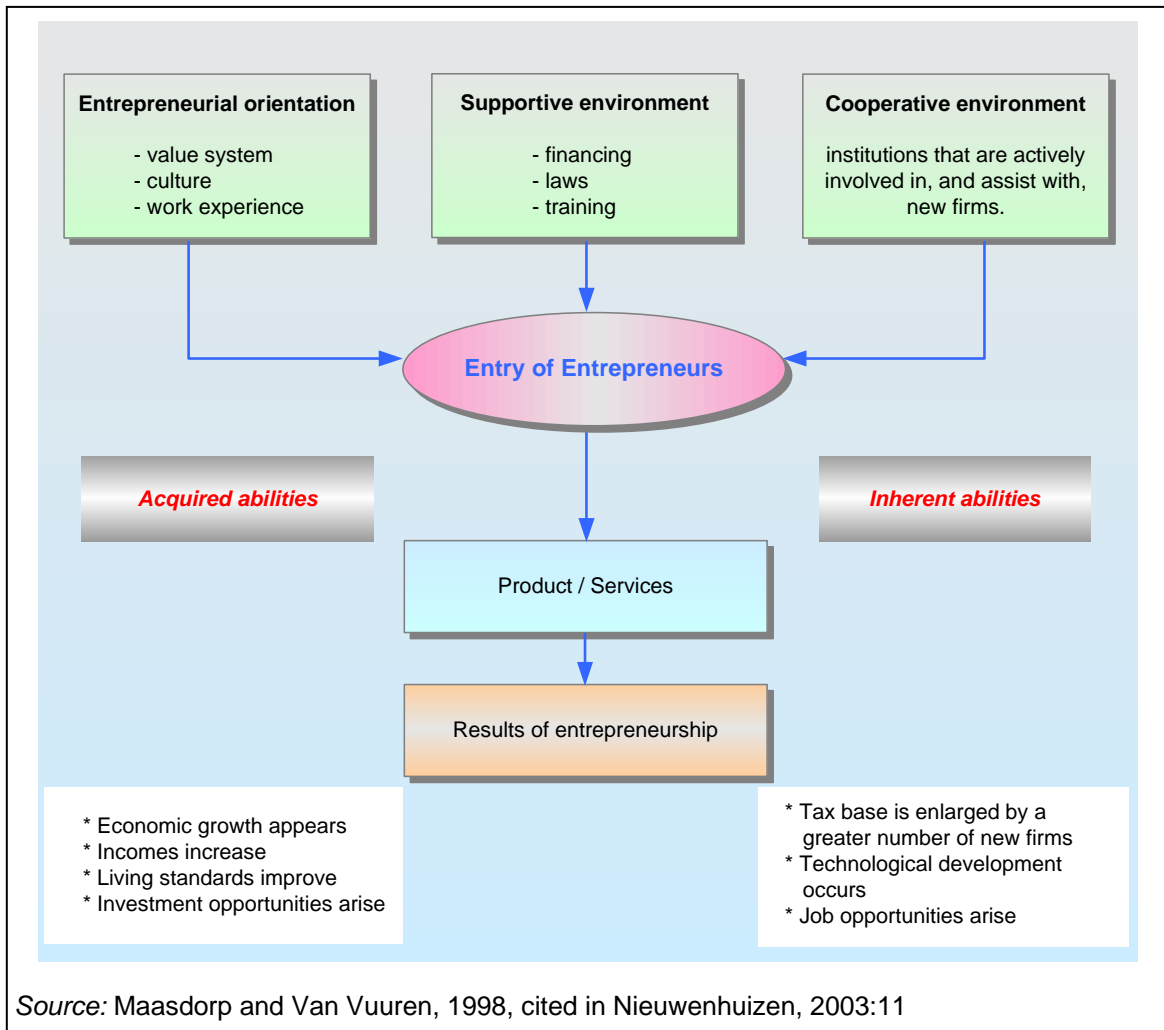
7.3 OVERVIEW OF PREVIOUSLY DEVELOPED MODELS

7.3.1 The Maasdrorp and Van Vuuren model

Nieuwenhuizen (2003) proposes the use of a model for entrepreneurial development which is accredited to Maasdrorp and Van Vuuren (1998:720). This model is depicted in Figure 7.2.

The model presents a simplified approach to understanding the development of entrepreneurship, but does not offer a method of measuring the success achieved. Furthermore, it depicts only “what must be done” and does not address the problems of “by whom should it be done” and “how should it be done”. The model acknowledges that factors such as culture, government intervention and non-government training and assistance are involved. However, it fails to identify how

they influence the rate of entrepreneurship and to what extent they are involved in stimulating entrepreneurship.



Source: Maasdorp and Van Vuuren, 1998, cited in Nieuwenhuizen, 2003:11

Figure 7.2: A model for entrepreneurial development

The model is very general and does not take into consideration industry-specific influences. The model does not consider the effect of location or planning on the entrepreneurship process

7.3.2 Echtner’s three-pronged model

A model that acknowledges the role of culture and training presented by Echtner (1995) advocates a three-pronged approach to tourism education in developing countries. This approach involves the cultivation of three types of skills: professional, vocational and entrepreneurial.

With an emphasis on the entrepreneurial aspect of training, Echtner's training model acknowledges the fact that "individuals that lack the ability to innovate or have an aversion to risk, are not likely to be entrepreneurial, even with the appropriate training". As a result of this reasoning, Echtner's model, excludes such individuals participation in training.

In fact, the social barrier of ethnic dominance in business ventures and certain subordinate groups that do not possess the ability to appreciate entrepreneurial opportunities and to capitalize on them, is seen as a limitation of this model. Any model of entrepreneurship development for South Africa will have to take into consideration the multi-faceted cultures that are prevalent in the different provinces. This also re-enforces the argument for "Regionalism" which was discussed in Section 5.5 in Chapter five.

7.3.3 The GEM model

Another model worth taking notice of because of its applicability to South Africa in particular, is that of the Global Entrepreneurship Monitor (GEM). The GEM conceptual model was developed to investigate the relationship between entrepreneurship and economic growth, and it differentiates between the contributions made by established, larger firms and that of entrepreneurial activity.

Prior to the GEM project, most studies of economic growth tended to emphasise the contribution of larger established firms rather than of smaller firms. These models assumed that the larger firms are the primary engines of prosperity in modern economies. The performance of large established firms is influenced by what GEM refers to as "General Framework Conditions".

In contrast to these approaches, the GEM model recognizes two contributions to economic growth: the first by established firms, and the second by entrepreneurial activity. The contribution of entrepreneurial activity to economic growth is expected to be dependent on nine "Entrepreneurial Framework Conditions". The model (Figure 7.3) shows how GEM recognises the contribution of entrepreneurial activity to economic growth.

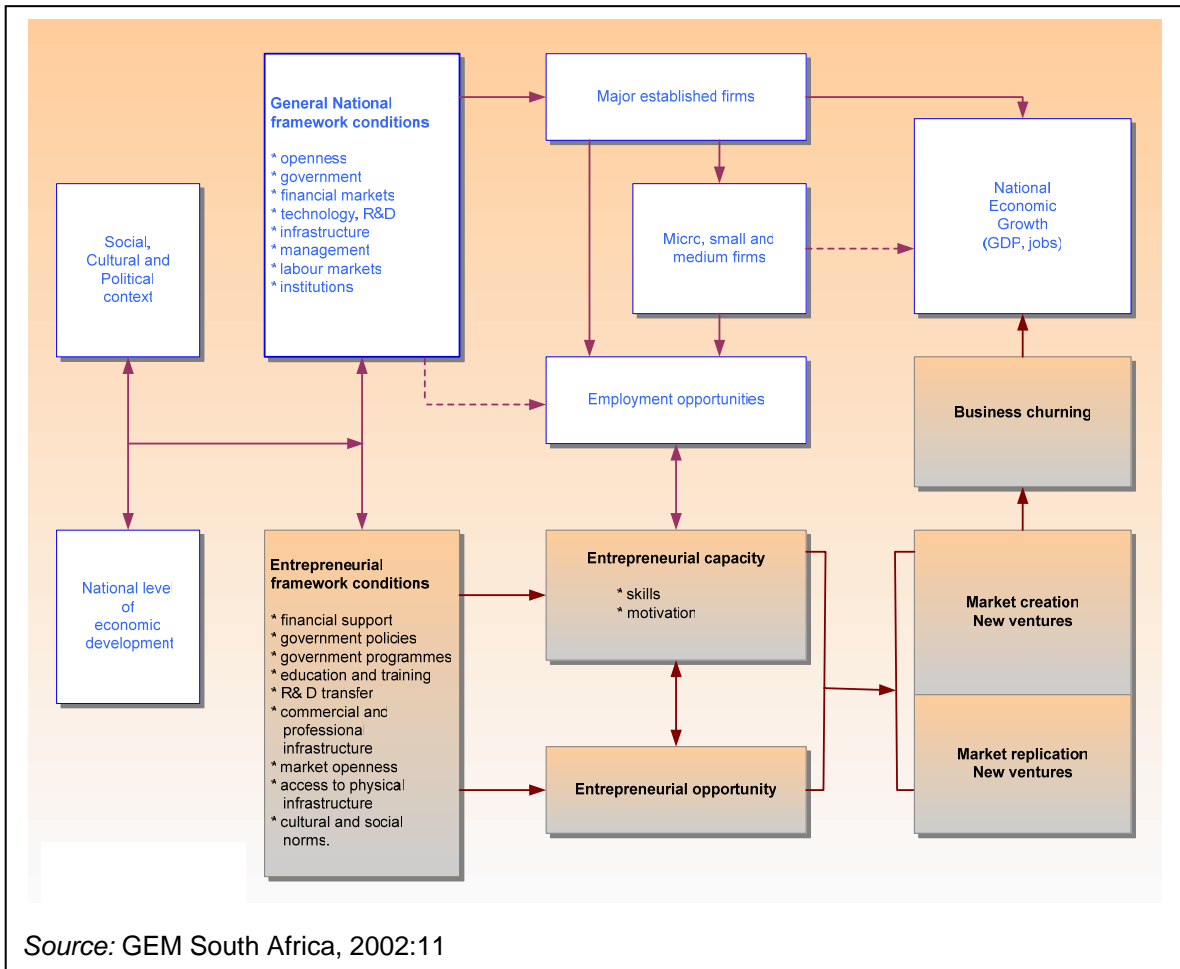


Figure 7.3: GEM conceptual model of entrepreneurship

The nine “Entrepreneurial Framework Conditions” are a dynamic set of factors that specifically influence entrepreneurial activity in a country. The precise definition of these factors is given in Table 7.3. These nine conditions influence the South African entrepreneurial climate which in turn affects the prevalence of entrepreneurial opportunities in the country. The combination of the capacity, skills and motivation of South Africans to capitalize on such opportunities influences the rate of new firm creation, which leads to economic growth.

7.3.4 The SME-Worklife renewable model

Based on the findings of GEM Reports of 2002 and 2003, the identification of weaknesses (within the South African economy) by the Department of Trade and Industry (DTI), and other constraints for entrepreneurs planning to enter the formal

SME-sector identified by the United Nations (UN) Report of 2004, Slabbert and Havenga (2004) advocate a SME-Worklife Renewable Model (see Figure 7.4).

Table 7.3: Entrepreneurial framework conditions in South Africa

Factor	Description
Education and Training	The extent to which the education and training systems at all levels (from primary and secondary school to university and business school) deal with creating or managing small, new or growing businesses.
Financial Support	The availability and accessibility of financial resources, equity and debt for new and growing firms, including grants and subsidies.
Cultural and Social Norms	The extent to which existing social and cultural norms encourage or do not discourage individual actions which may lead to new ways of conducting business or economic activities and, in turn, lead to a greater spread of wealth and income.
Government Policies	The extent to which government policies, reflected in taxes, or regulations or the application of either, encourage or hinder new and growing firms.
Government Programmes	The presence and efficiency of direct programs to assist new and growing firms at all levels of government (national, regional and municipal).
Market Openness / barriers to entry	The extent to which commercial arrangements undergo constant change and redeployment as new and growing firms compete and replace existing suppliers, sub-contractors and consultants.
Research & Development transfer	The extent to which national research and development leads to new commercial opportunities, and whether or not, these are available for new, small or growing firms.
Access to Physical Infrastructure	Ease of access to available physical resources – communication, utilities, transportation, land or space - at a price that does not discriminate against new, small or growing firms.
Commercial and Professional Infrastructure	The presence of commercial, accounting, and legal services and institutions that allow or promote the emergence of new, small and growing businesses.
<i>(Highlighted areas represent those areas in which this study is particularly interested)</i>	
<i>Source: Adapted from GEM South Africa, 2002</i>	

The model of Slabbert and Havenga (2004:41) is explained as follows:

7.3.4.1 Foundations for entrepreneurship

Building a sound SME-sector requires a strong foundation in the global and domestic macro environments, physical and social infrastructure and rule of law.

Global macro environment

The foundations for growth in the SME-sector start with a well-functioning global macro business environment involving a dynamic global economy that provides

markets, as well as adequate trade rules that enable competitive access to market opportunities.

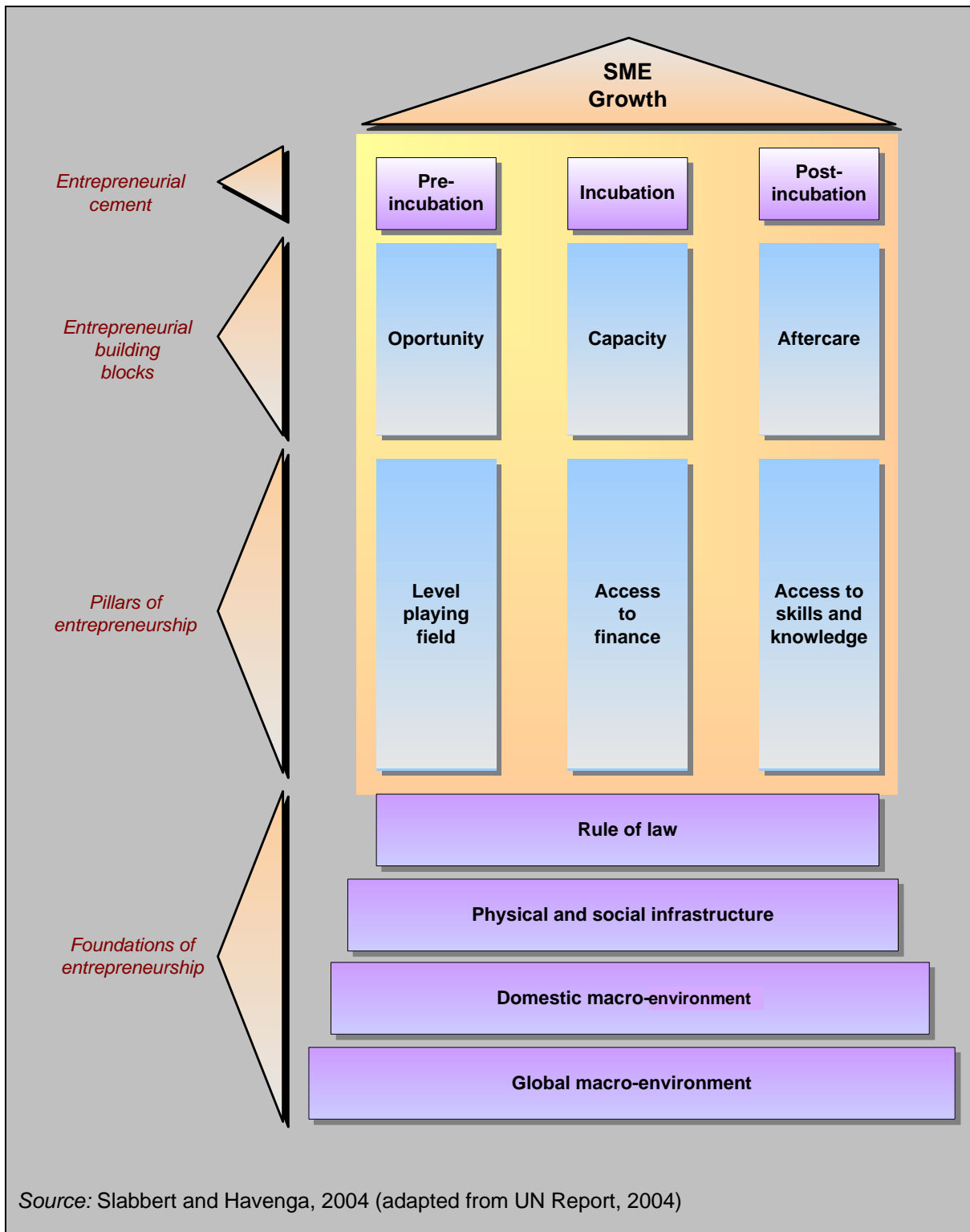


Figure 7.4: SME-worklife renewable model

Domestic macro environment

The central elements of a strong domestic macro environment for SME's include peace and political stability, good governance with policy predictability, transparency and accountability, and sound macro-economic policies.

Physical and social infrastructure

A country's physical and social infrastructure includes roads, power, ports, water and telecommunications as well as basic education and health.

The rule of law

The rule of law means that government decisions are made according to a set of written laws and rules, to be followed by every citizen.

7.3.4.2 Pillars of entrepreneurship

Even with strong macro-economic and institutional foundations, three additional factors are indispensable for entrepreneurship and SME's to flourish in an entrepreneurial economy: a level playing field, access to finance and knowledge and skills.

A level playing field – with fair rules, fairly enforced

Perhaps the most important contributing factor for allowing entrepreneurship and SME's to blossom is a level playing field for all companies, irrespective of size, competing in the domestic market.

Access to financing

It is impossible for a country to progress without domestic investment based on domestic savings. This requires domestic financial institutions that can efficiently manage risk and allocate capital to productive investments.

Access to skills and knowledge

People as human capital form another entrepreneurial pillar needed for success in the SME-sector. Human capital contributes directly to a company's productivity by enabling the adoption of innovative technologies and processes through its

entrepreneurial capabilities, its management and technical know-how and the skills, education and adaptability of its employees.

7.3.4.3 Entrepreneurial building blocks

The growth of entrepreneurship is the product of a three-fold contribution:

- cultivating and detecting entrepreneurial opportunities;
- developing entrepreneurial capacity, i.e. commitment (mindset) and entrepreneurial attributes of individual organisational capacity and market development needed for the shifting of products; and
- finding an optimum balance between entrepreneurial capacity and entrepreneurial opportunity by means of a focused and integrated entrepreneurial support system or network as a pre-condition for SME growth.

Cultivating and detecting entrepreneurial opportunities entails, inter alia, the following actions:

- establishment of a positive mind-set;
- entrepreneurial assessment;
- opportunity recognition and idea generation;
- financial support; and
- providing affordable rental facilities.

Capacity building, as the second entrepreneurial building block, has three focal points, namely, the individual, the organisation itself and the market. Sector-specific skills in the context of “best practice” or “world class” should therefore be the focus of individual capacity building.

The following *aftercare-support services* should be offered to SME-owners as a third building block:

- information – on business opportunities, credit facilities, technology and market trends by way of company information centres;
- mentorship programmes; and

- counselling campaigns.

7.3.4.4 Incubation as entrepreneurial cement

The acceptable “vehicle” to structure these aftercare support services in such a manner that it will promote an optimum balance between entrepreneurial opportunities and capacity and also stimulate an entrepreneurial culture, is business incubation. This is a concept that can be defined as an integrated hub for a network of service providers, designed to accelerate the growth and success of entrepreneurial companies through an array of business support services and sources (shared services / business proficiency services).

(Slabbert & Havega, 2004:50).

Because of the strong argument presented by exponents of the “regionalism” concept, a distinction should be made between those activities which are primarily functions of national government and those that should be functions of local or regional government. Both “foundations for entrepreneurship” and “pillars of entrepreneurship” are clearly functions which need to be addressed by national government. However, it is argued that the functions of “entrepreneurial building blocks” and “entrepreneurial cement” could quite conceivably be fulfilled by local or regional government.

7.4 ENCOURAGING ENTERPRISE DEVELOPMENT

Entrepreneurship development can be considered as the development of human capital in the direction of a specific philosophy. Going hand in hand with this approach, is the concurrent process of stimulating and developing enterprises themselves. This section pays attention to the concept of encouraging enterprise development. It will, firstly, address the issue of how enterprises develop and look at the small business growth cycle. Secondly, it will analyse a framework for regional enterprise development and attempt to integrate such a framework within the context of a broader regional development strategy.

7.4.1 Understanding enterprise development and growth cycles

Small business creation and development are frequently considered from either an economic or labour market perspective. These approaches consider the economic factors (both macro and micro) likely to impede or encourage the formation and growth of small to medium enterprises and the contribution such firms make to employment. While important, these perspectives fail to take into account a variety of other factors likely to impact on enterprise foundation and development (Mazzarol, 2001).

Gibb (1987, cited in Mazzarol, 2000:7) provides an enterprise development model depicted in Figure 7.5.

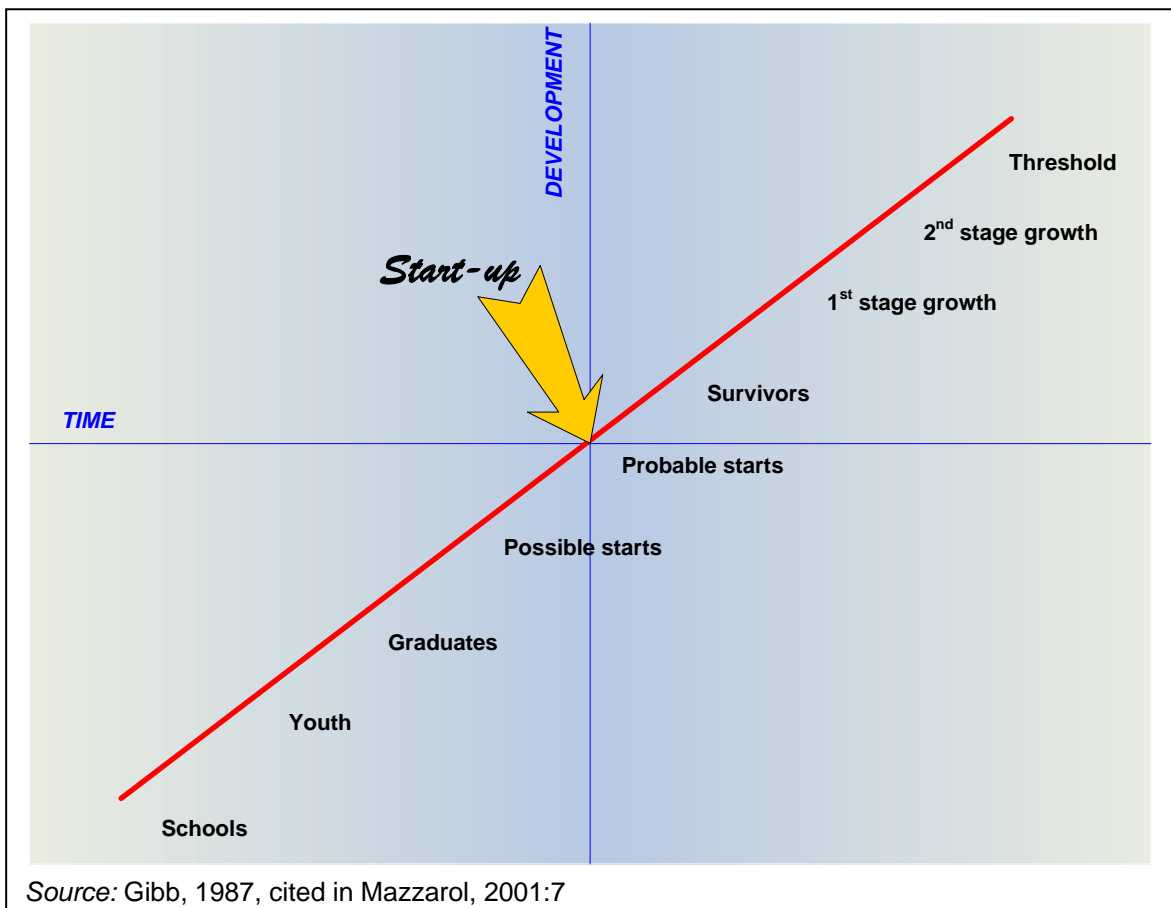


Figure 7.5: Enterprise development cycle

Figure 7.5 represents the stages through which a small business commonly moves from conception to inception, birth, growth and maturity. As shown, the

development cycle is separated into the pre- and post-start-up phases. Both phases are important. Too many enterprise development programmes focus attention only on one side of the model. Support and encouragement needs to be provided for the pre-start-up and start-up processes. Further, once trading has commenced, the small firm requires a variety of resources and support services to assist its survival and growth. The availability of capital to finance business growth is an example (Mazzarol, 2001:7)

Figure 7.6 shows a five-stage model of small business growth, and seeks to provide an explanation of the process of small firm growth.

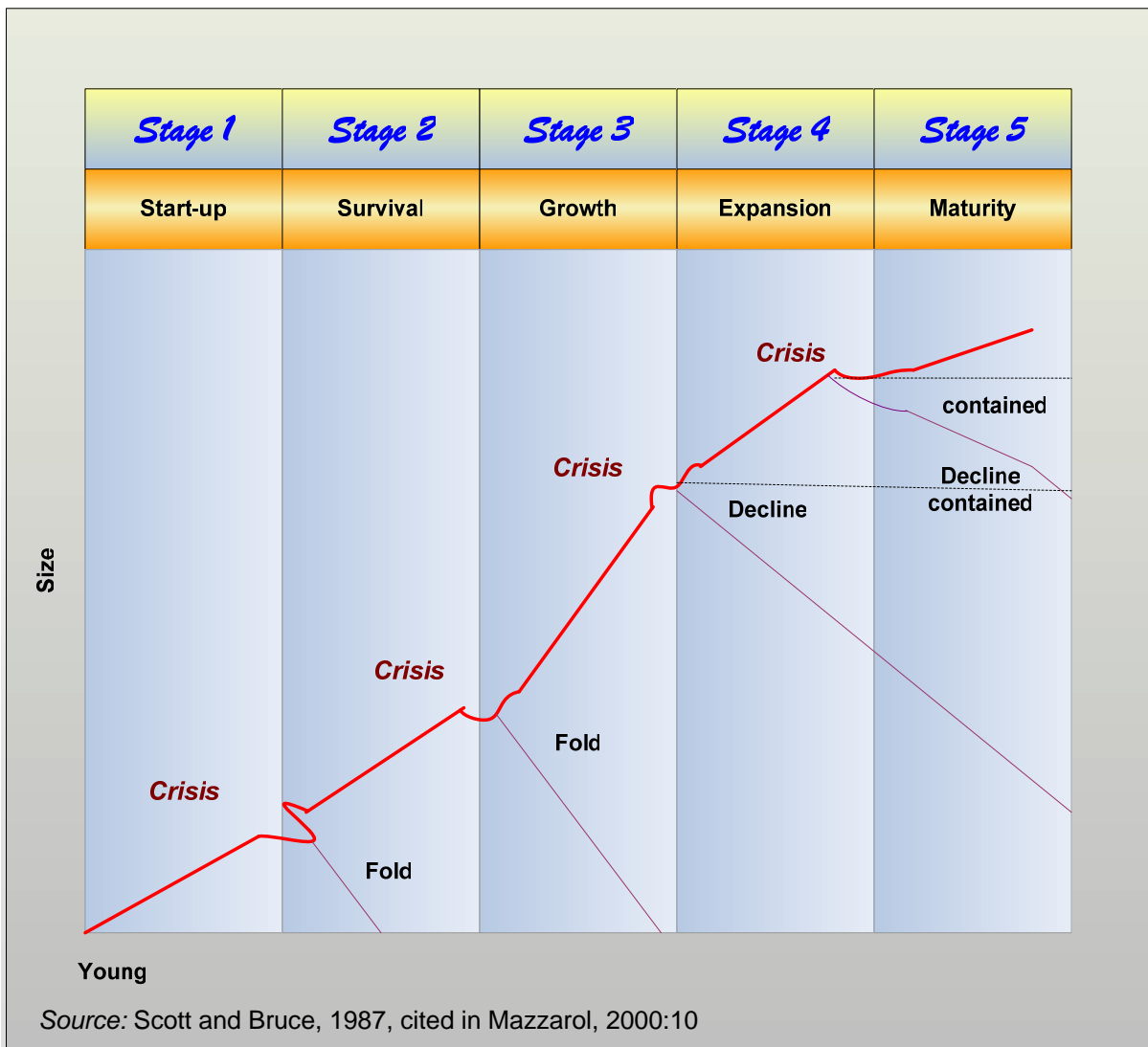


Figure 7.6: Stages of Business Growth

While Figure 7.5 considers both the pre- and post-start-up environment, the model shown in Figure 7.6 is concerned only with the business once it has commenced trading.

For each stage of the business development cycle different skills and resources are required. During the first stage the business is conceived and established. During this period it is entirely the creation of its owner-manager founder. All attention is given to finding customers and maintaining adequate cash flows to survive.

If it survives the business will pass into a second phase of “Survival”. During this period the business is financially viable and may even hire additional staff. Many SME’s continue to operate in this stage for long periods of time with a single or limited product line and any growth being driven by natural market expansion. From the perspective of growth it is the third stage that may be most critical. Here the business is strong enough to maintain its position and the owner-manager must make a decision as to whether it will grow or not. A successful growth strategy will take the business into the fourth stage of “Expansion”. Major crises facing the business during this stage are frequently those associated with the distancing of the original entrepreneur/owner from the day-to-day running of the firm.

The fifth and final stage of “maturity” sees the business with sufficient resources to conduct formal strategic planning. Its management structure is likely to be decentralized and there is a greater separation between the owner and the business in terms of financial and operational matters (Mazzarol, 2001).

Firms in each of the five growth stages experience different generic problems. In many respects the needs of owner-managers in the early stages of the development-cycle are recognized by government-funded initiatives and strategies put in place to assist them. Unfortunately, the maintenance of a healthy enterprise environment requires ongoing assistance at all stages of the business life cycle. A holistic approach is required if effective support frameworks are to be developed that will be capable of supporting the establishment and growth of new business

ventures (Mazzarol, 2001). This is probably the main reason why South Africa experiences such a high percentage of new venture failures within the first few years of existence.

At the time of writing, the Western Cape Provincial Government has established an intervention called the Integrated Tourism Entrepreneurship Support Programme (ITESP). The programme is an initiative of the Department of Economic Development, Cape Town Routes Unlimited and the Development Bank of South Africa.

ITESP is a programme that provides solutions to problems faced by SME's in the tourism sector. It has a particular focus of brokering deals between historically disadvantaged individuals and big business in the province. It also seeks to assist SME's to gain access to both market and funding.

ITESP is an example of a local (South African) Entrepreneurship Support Organisation. Although the ITESP has a primary objective of providing support to historically disadvantaged individuals, its success will depend on the degree to which support is forthcoming to all entrepreneurs and not only those that are regarded as being historically disadvantaged.

7.4.2 Framework for enterprise development

In attempt to enhance the creation and growth of small firms within a region, attention needs to be given to the environmental factors likely to affect the owner-managers who want to operate such businesses.

Gibb (1987, cited in Mazzarol, 2001:15), proposed a four-part framework for an integrated approach to enterprise development:

- **The economic environment** – This part considers the economic structure of the various industry sectors currently operating within the region.
- **The regulatory environment** – This part considers the legal environment which new ventures will be created or existing ventures developed. Of

particular importance will be local government planning activities as these frequently have a direct effect on the operation of small firms. Lack of coordination between the three tiers of government or their agencies is a critical area for consideration and attention.

- **The support environment** – This part considers the availability within a region of sources of specialist advice and information.
- **The specific business environment** – This part considers those aspects of the environment that have an effect on the business community

It is clear that to achieve a holistic approach to the enhancement of enterprise in regions, will require the collaboration of quite a few participants who will be able to unite these various environmental frameworks.

Figure 7.7 shows a proposed model for regional enterprise development (Gibb, 1987, cited in Mazzarol, 2001:15). The model suggests that the objectives of achieving enhanced employment and new venture growth, increased population and a common or shared sense of community values and objectives can be achieved if consideration is given to the interdependency found between the four

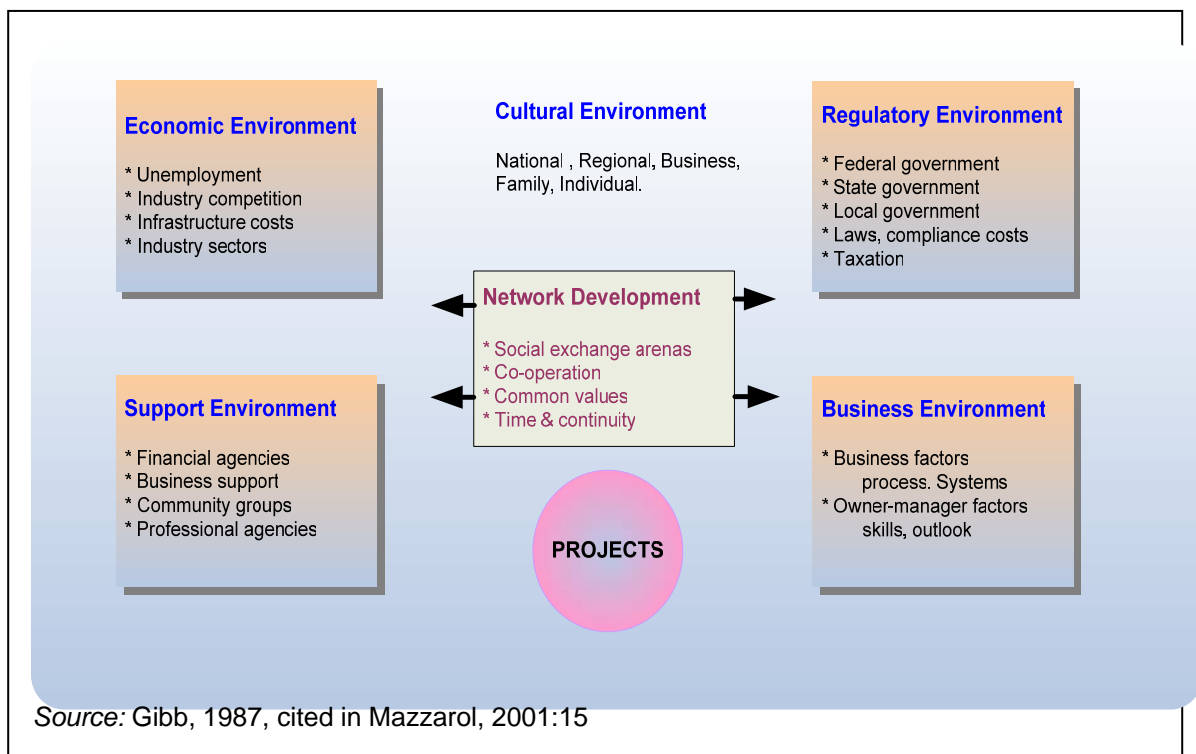


Figure 7.7: Integrated regional enterprise development model

environments and the culture found in a particular region. Attention needs to be given to the economic, regulatory, business and support networks that surround enterprises. These need to be filtered via the network development process that allows opportunities for various stakeholders to come together and exchange ideas, cooperate in common purpose and, over time, develop common values.

7.4.3 Regional development model for the Southern Cape

It is important to realize that any development model for a specific industry or sector will have to conform to, or form part of, the wider economic vision for the particular region.

Figure 7.8 depicts a proposed model for regional innovation, competitiveness and economic development for the Southern Cape, developed by Van Biljon (2006). What makes this model particularly attractive is the fact that it identifies the roles

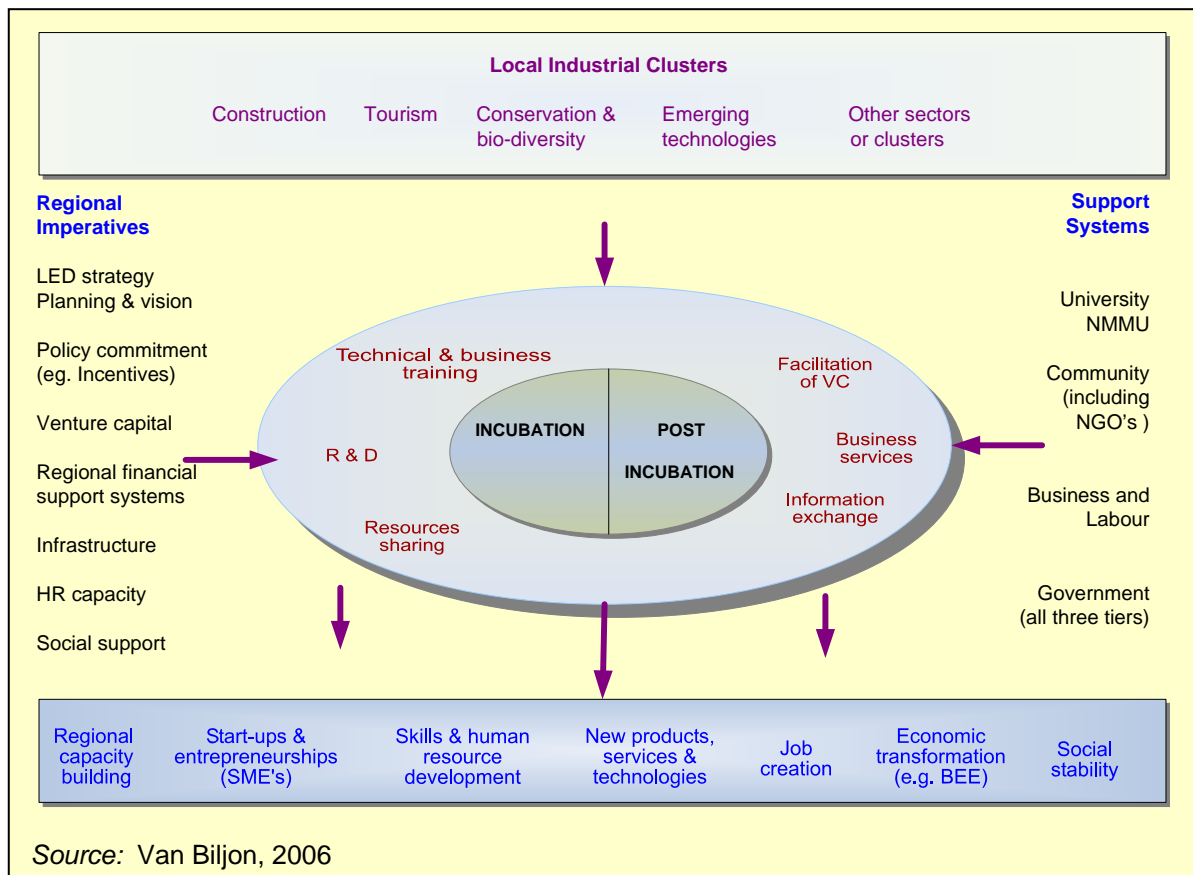


Figure 7.8: Regional innovation, competitiveness and economic-development model

played by individual industry sectors and acknowledges the need to develop strategies for both pre- and post-incubation phases in the enterprise development cycle. It identifies and acknowledges regional components which affect the support and development of local SME's. It identifies local support structures which play a role in the development. It also identifies target outcomes (or objectives) of the local development model. However, its main attractiveness lies in the model's specific application to the Southern Cape region.

7.5 TOWARDS FORMULATING A STRATEGY FOR THE DEVELOPMENT OF TOURISM-RELATED SME's

Considering the preceding findings, a strategy for the development of tourism-related SME's should incorporate the following aspects:

- be industry specific;
- include room for government intervention on the supply side of entrepreneurship that generates potential entrepreneurs who can seize opportunities provided they have the resources, abilities and preferences to do so;
- consider those interventions which can be applied by local or regional government. They are:
 - (i) establishment of legislation regarding such activities as licensing;
 - (ii) efficiency enhancing policies (business training, provision of information by consultancy and counselling);
 - (iii) specific entrepreneurship support policies (credit guarantee schemes, tax exceptions, subsidized facilities, encouraging networks); and
 - (iv) stimulating entrepreneurship activity among different groups (financial assistance, setting up help-desks, special support for women).
- consider the local culture;
- address both the questions "What must be done?" and "By whom?";
- not exclude groups because they have "traditionally" been adverse to taking risks;

- acknowledge that the development of entrepreneurship could follow two routes at the same time: the established route (general national framework conditions) and the route of entrepreneurship (entrepreneurial framework conditions);
- pay particular attention to the encouragement of new ventures or start-ups;
- consider the establishment of a local ESO's;
- provide strong foundations;
- consider the local or regional activities of entrepreneurial building blocks and entrepreneurial cement; and
- based on the regional economic development model of regional innovation, competitiveness and economic development shown in Figure 7.8.

The components and aspects which have been identified here will be incorporated into the formulation of strategy for the development of tourism-related SME's in Chapter nine.

7.6 SUMMARY

This chapter has shown how government intervention can influence the choice of becoming an entrepreneur, and has identified those activities which could be applied to achieve this objective. It also highlighted the role that culture plays in the encouragement of entrepreneurship. A number of entrepreneurship development models which have a particular influence on the South African situation were identified and those aspects which a local or regional strategy should take into consideration were pointed out.

This chapter concludes the literature survey component of this study. In order to achieve the main objective of this study – to formulate a strategy for the development of tourism related SME's – it becomes necessary to synthesise what has been learnt with the feelings, needs and perceptions of practicing entrepreneurs. Chapter eight paves the way for this synthesis by documenting the results of the empirical survey discussed in Chapter two.

Section 2

Chapter 8

PRESENTATION AND DISCUSSION OF RESULTS

8.1 INTRODUCTION

The purpose of this chapter is to present and discuss the results obtained from the empirical study, the research process of which was documented in Chapter two. This will be enhanced by the results obtained from the secondary data search. The empirical study results will be subdivided according to the four subsections documented, and linked to the applicable research objective.

The research problem of the study is:

Can a strategy be formulated to stimulate SME development and concurrent job creation among SME's operating in the tourism sector of the Southern Cape and can such a strategy be depicted within a framework of a development model?

The objectives of the study are set out in Table 2.1. The objectives specifically pertaining to the empirical study were:

- Objective No.6 - To determine the relationship between job creation in tourism-related SME's and increasing tourism numbers visiting the region.
- Objective No.7 - To determine if national government's incentives to the tourism industry are contributing to job creation in SME's.
- Objective No.8 - To establish what special requirements are necessary to stimulate local tourism-related SME growth.
- Objective No.9 - To determine what local government can do to stimulate job creation and entrepreneurship in the tourism sector.

The questions contained in the questionnaire were grouped into the following sections:

Section A required general information about the respondent, the type of business ownership, the size of the business, how long the respondent had been in business and how the business was originally started.

Section B addressed the issue of the number of jobs created and attempted to meet objective No.6.

Section C tested the awareness of available government incentives to the tourism industry as well as the extent to which use had been made of them. In so doing answers to meet objective No.7 were sought.

Section D represented the opinion of respondents as to what they considered to be important factors contributing to the future growth of their business and what role local government should play in encouraging this growth. This section attempted to meet objectives No.8 and 9.

8.2 RESULTS – SECONDARY SEARCH DATA

The secondary data search involved the determination of the number of tourists visiting Eden district (the Garden Route and the Little Karoo districts) over the last ten years in order to determine an average growth rate over this period.

Notwithstanding an intense search of available tourism statistics sources, a single source of information could not be found that could supply all the information sought. Consequently it became necessary to consult various different sources and to aggregate their findings in order to make valid assumptions about growth rates. The data obtained are reflected in Annexure 9.¹⁴ The sources were acknowledged and colour-coded for ease of reference. When it became necessary to apply mathematical extrapolations, this too was colour-coded and the basis of the calculations was annotated.

As far as international tourists were concerned, figures for South Africa as a whole were readily available. Not so, however, for subregions and the Eden district in

¹⁴ See Annexure 10 for the calculations to determine average growth rates over the 10 year period 1994 to 2004.

particular. It therefore became necessary to estimate figures by means of extrapolation of figures presented by various research institutions.

It was far more difficult to access information pertaining to domestic tourism since only four domestic tourism studies had been carried out since 1994 (Markinor, 1994; Grant Thornton, 1998; SA Tourism, 2001, 2003) and in the absence of accurately measured statistics, data reflected only approximations. As with international tourism data, it was also difficult to obtain a breakdown of the data into provincial and regional figures and here too, approximations or estimates were made use of.

Furthermore, international tourism figures reflected actual visitor numbers while domestic tourism figures reflected only the number of overnight stays or trips undertaken, and not the number of tourists. It was, therefore, not possible to combine international visitor totals with domestic totals to arrive at a combined tourism growth rate.

Notwithstanding the above difficulties, it can be reported with confidence that international tourist numbers to the Eden district have grown at a rate of 4.84% per year over the period 1994 to 2004, while domestic tourism to the same district over the same period is estimated to have grown at an annual rate of 4.45 percent. Table 8.1 gives a summary of the data contained in Annexure 9.

Table 8.1: Summarised tourism growth rates for Eden district, 1994 – 2004

Category	Average growth rates		
	South Africa	Western Cape	Eden
International tourists	8.32%	8.53%	4.84%
Domestic tourism ¹⁵	11.55%	12.02%	4.45%

It is worth mentioning that Eden displays, albeit only slightly, a higher growth rate in international tourists than that displayed for the domestic tourism market. This is in sharp contrast to the Western Cape and South Africa as a whole, who both

¹⁵ International figures measure the number of tourists while Domestic figures represent the number of overnight stays, which are not necessarily equal to tourist numbers.

show a larger increase in their domestic tourism market than in the international market. The above observation indicates clearly where additional marketing effort could successfully be applied.

Furthermore, it can be noted that the growth rates in both international tourist numbers and domestic tourism overnight stays are similar for South Africa (8.32% and 8.53%) and for the Western Cape (11.55% and 12.02%). Considering international tourists visiting Eden, the growth rate is approximately half that of South Africa and of the Western Cape. In the case of domestic tourist overnight stays, the growth rate experienced in Eden is approximately one third of that experienced in South Africa and in the Western Cape.

In 2004, international tourists visiting Eden is estimated to have been 432 245 in number, while the number of domestic overnight stays for the same year is estimated to have been 983 388.

8.3 RESULTS – THE EMPIRICAL SURVEY

8.3.1 Overall response

During the structured telephone interviews the additional random sample described in Section 2.3.4 was used. The main reason for the inability to make contact with the complete randomly selected sample was the fact that many telephone numbers did not exist any more, or the business had closed down. After investigation the conclusion was reached that the original population was overstated by between 20% and 25%.¹⁶

The reason for this discrepancy is explained by the fact that EDM is by law (Act No. 43 of 1996) required to maintain account records for a period of five years after payments of levies have ceased. In light of the fact that the tourism industry

³This figure was confirmed by the EDM's staff of the Financial Division – Mrs M Van Vuuren (Systems controller, Financial Division, EDM) and Mrs M van Heerden (Accounts clerk, Financial Division, EDM).

is characterised by ease of entry and exit, the above reason was accepted by the researcher as a valid explanation.

A further complication which precluded the simple arithmetic of adding together the number of accounts sent out to the identified strata each month, was the fact that accounts are sent out monthly or quarterly or half-yearly or yearly, depending on the choice of the registered business. This made it almost impossible for the EDM to quantify exactly the number of businesses (the population) active in any one month.

This, in turn, required that a recalculation with respect to the target population, sampling and resulting precision be made. Table 8.2 depicts the study's target population, sample size, and precision after the target population had been reduced by 20%. Also depicted is the actual response recorded with the resulting precision.

Table 8.2: Target population, sampling and approximate precision

Type	Population size	Sample size	Responses received	Precision (90% confidence)
02 Accom./Resort Accommodation Guest house Holiday resort Timeshare Nature reserve	589	156	97	7.6%
14 Restaurants Restaurant Coffee shop	679	180	115	7.0%
17 Home/Catering Home industry Catering	119	36	8	28.2%
22 Transport Passenger service Car hire	258	72	23	16.4%
42 Hotel/Motel Hotel Motel Pub Tavern	166	48	28	14.2%
TOTAL	1811	492	271	4.6%

The response of 271 out of 1811 represents a response rate of 14.9% which, according to Pechlaner *et al.*, (2002) and Tluo *et al.*, (2004), can be considered to be a good response rate.

8.3.2 Section A – General Information

This Section gathered general information about respondents. Questions three through twelve provided the following overview of respondents:

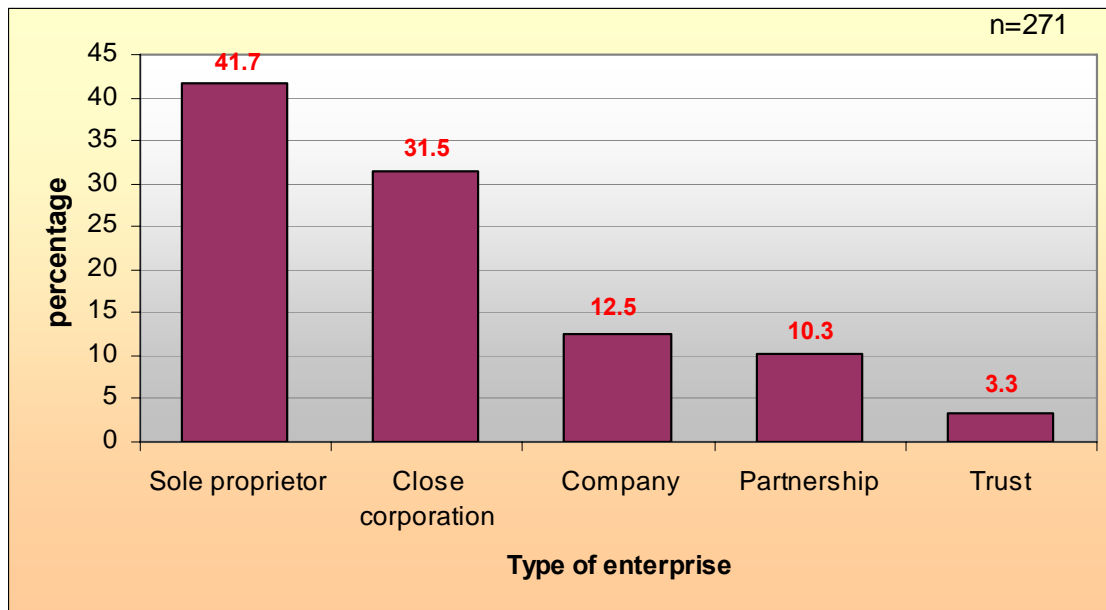


Figure 8.1: Type of enterprise

Sole proprietors and close corporations made up the majority of the respondents, accounting for 41.7% and 31.5%, respectively. This was expected since it is known that the industry comprises mainly SME’s who normally trade as sole proprietors or close corporations. The relationship between the numbers shown in Figure 8.1 also reflects why ease of entry and exit is considered as a characteristic of the industry. Formal forms of enterprise establishment, such as companies and trusts, make entry and exit to the industry more difficult than that of sole proprietors and close corporations.

The degree of involvement by owners is reflected in Figure 8.2. Of the owners, 84.1% were full-time involved in the business. Once again, since the industry is

characterised by SME's, it is not unusual to find small businesses being run by the owner. Owner involvement is typical of entrepreneurial organisations found in SME's.

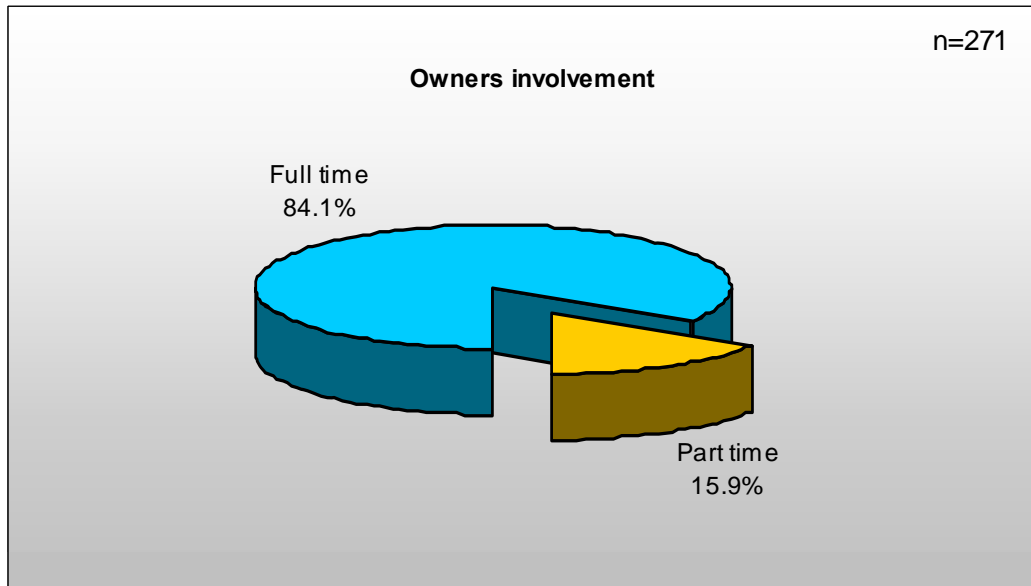


Figure 8.2: Owners involvement

The number of respondents having prior business experience is shown in Figure 8.3.

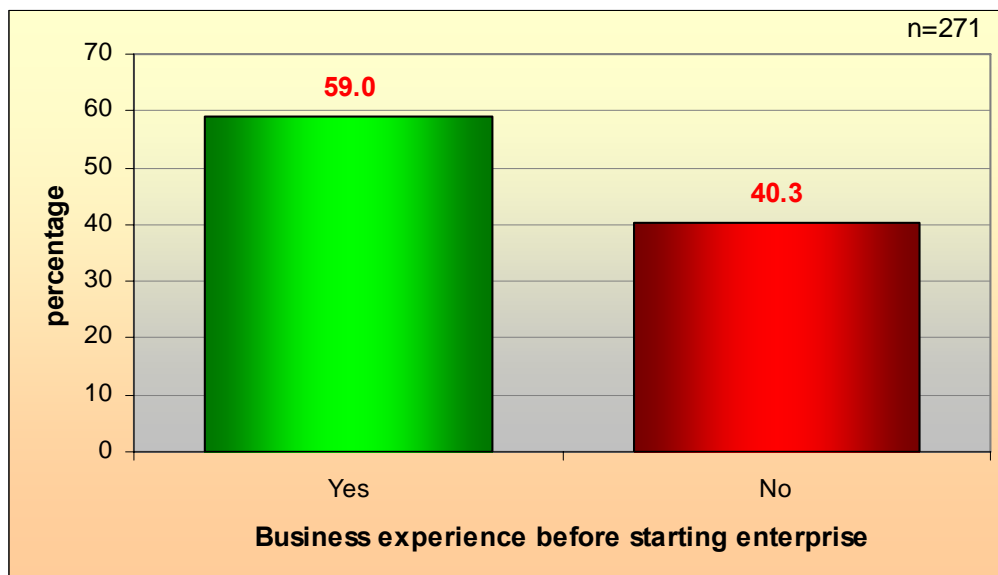


Figure 8.3: Business experience before starting enterprise

The majority of respondents had business experience of some sort before embarking on their tourism business venture. The fact that as many as 40% of

owners have entered the industry without prior business experience, is also indicative of the industry's characteristic of ease of entry.

Having almost 60% of respondents indicating that they had previous business experience could contribute to a balanced viewpoint being exhibited during the remainder of the questionnaire.

Figure 8.4 addresses the size of the business in terms of annual turnover in order to determine the number of small, medium and micro enterprises represented in the sample interviewed.

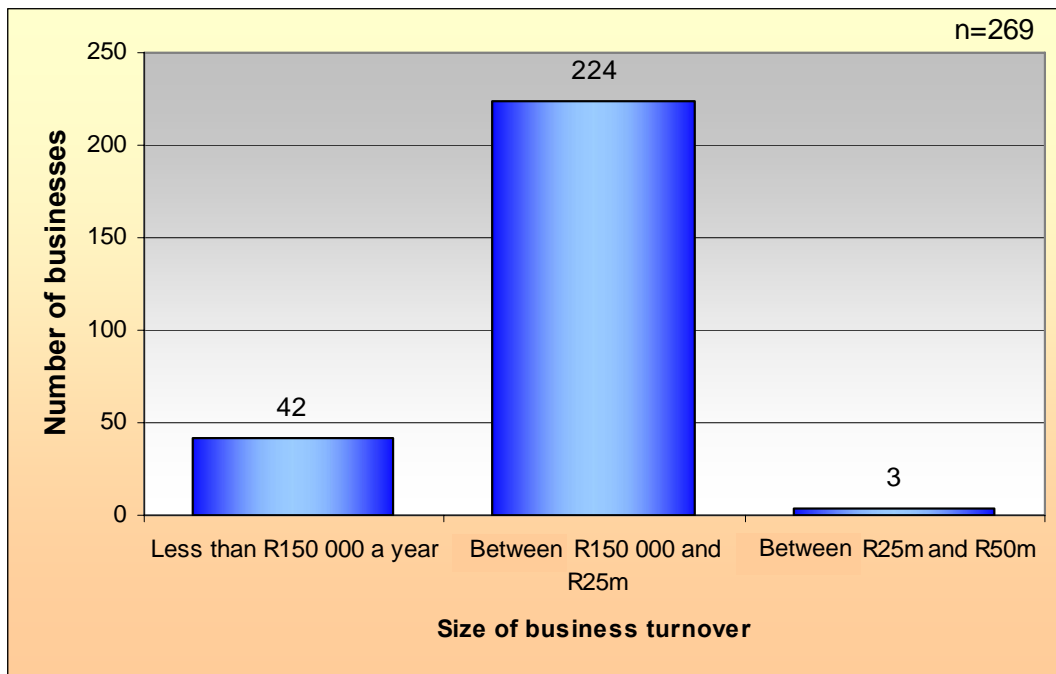


Figure 8.4: Size of business in terms of turnover

Small businesses accounted for 82.0% of respondents while 15.4% could be classified as micro and 1.1% classified as medium in size. According to the National Business Act, 1996 (Act No 102 of 1996), all of the above businesses can, in terms of turnover, be classified as SMME's. This relationship is in line with international findings (Morrison & Thomas, 2004).

Figure 8.5 reflects the classification according to the number of employees in service.

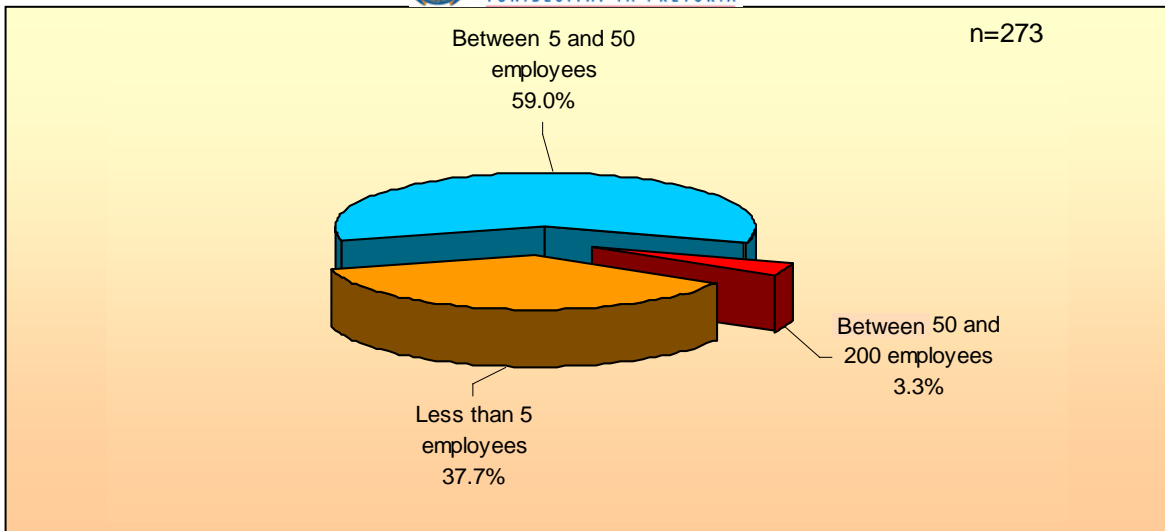


Figure 8.5: Size of business in terms of employees

In terms of employees, 37.7% of businesses could be classified as micro while 59.0% could be classified as small. According to the said National Business Act, 1996, all of the above businesses fall under the category of small, medium and micro enterprises (SMME's).

Because of the large number of enterprises classified as small, the sample might be biased towards small businesses.

An alternative classification is shown in Figure 8.6.

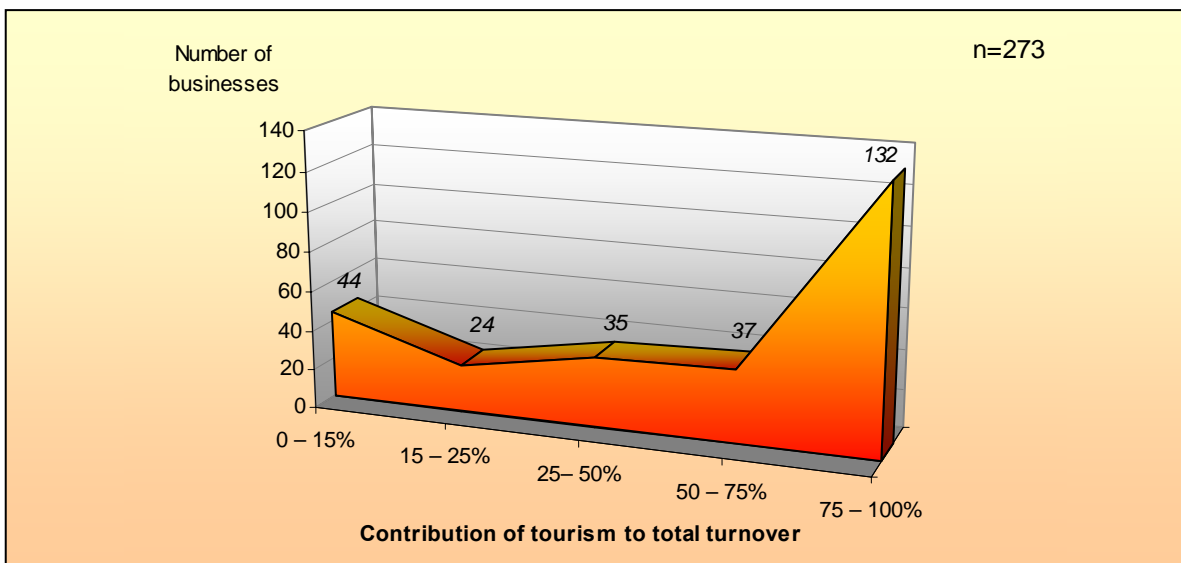


Figure 8.6: Contribution of tourism to total turnover

Businesses which earned less than 15% of their business income from tourism amounted to 16% of the total number of businesses interviewed. According to Smith's (1998:39) alternative classification method, businesses that have a tourism ratio of more than 15% can be classified as being in the tourism industry (see the discussion on the tourism ratio in Section 3.2.2).

The fact that, within the sample, a few businesses exist with a tourism ratio less than Smith's 15% can be explained by the Eden Municipality's classification system that includes shebeens and local taxi operators, who are not greatly influenced by tourism.

The length of time that businesses have been in existence is shown in Figure 8.7.

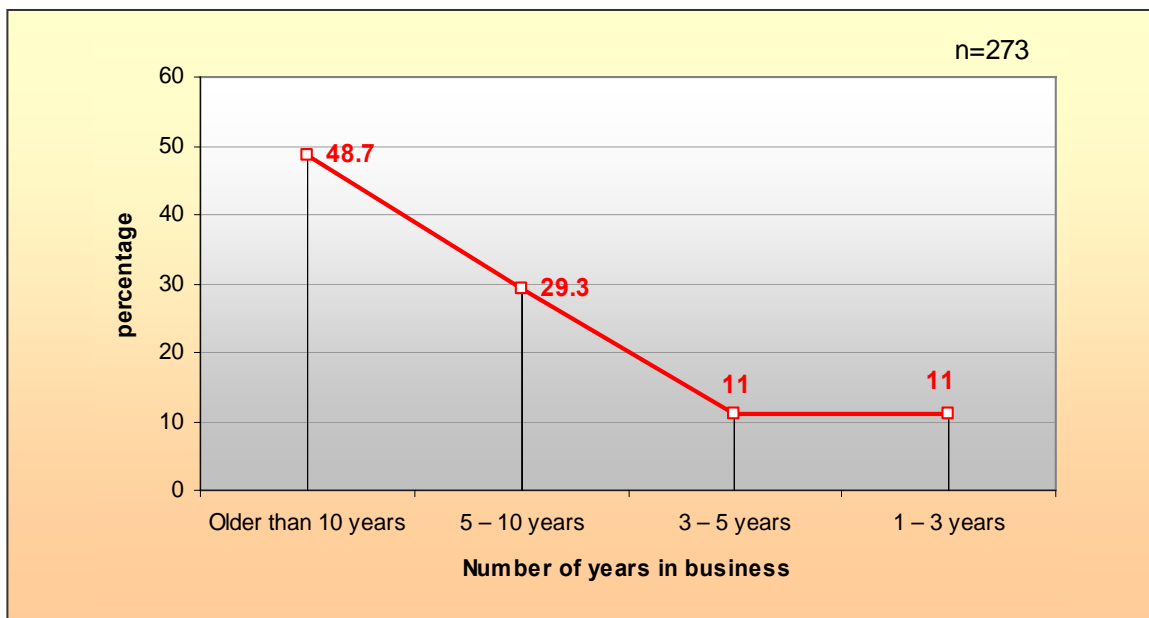


Figure 8.7: Number of years in business

Nearly half of the respondents had been in business for more than 10 years. This is regarded as a positive feature for the following reasons:

- Opinions expressed further on in the study will be based on many years' of experience.
- It reflects the long-term attractiveness of the industry.

- 82% of the enterprises are older than 3.5 years and, as such, can be regarded as established firms.¹⁷

The length of time in business by respondents does not come as a surprise, as it reflects the general situation as reported in the Global Entrepreneurship Monitor (2004). GEM reports that South Africa has a relatively high rate of start-up failures. Failure rates are obtained by determining the ratio of start-up firms to new firms, which in South Africa amounts to 2.4 to 1 compared to an average of 1.6 to 1 in developing countries (GEM, 2004).

A high failure rate among start-up firms would result in a low number of businesses being younger than 3.5 years old. This phenomenon is evident from Figure 8.7.

The independence of firms operating in the sample is reflected in Figure 8.8.

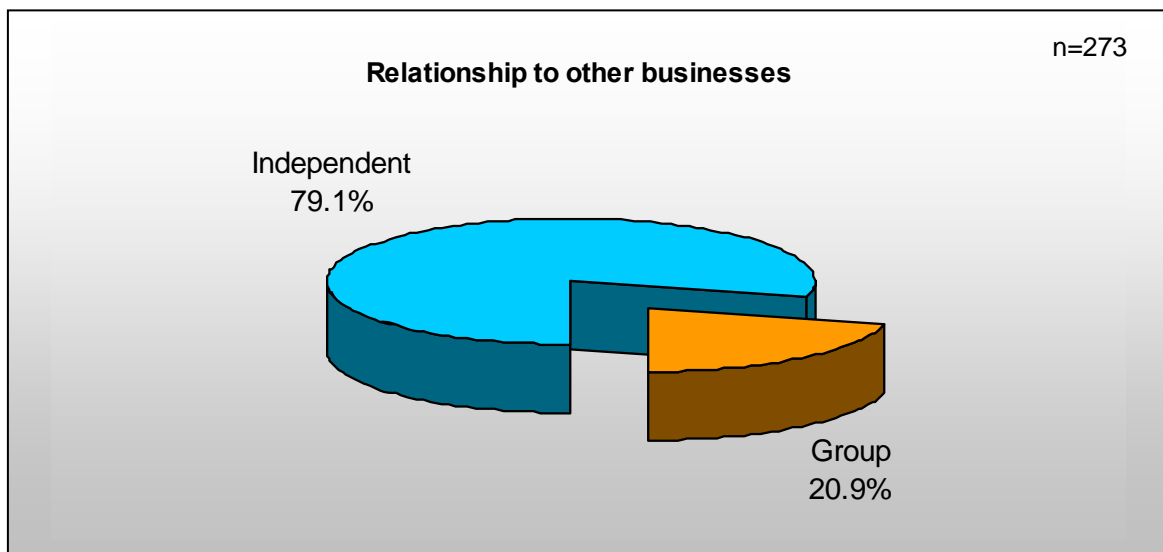


Figure 8.8: Relationship to other businesses

Only 21.0% of respondents formed part of a larger group of companies or part of a franchise. This might impact on the answers to questions relating to training and access to financing encountered further on in the study.

¹⁷ The Global Entrepreneurship Monitor (2004) distinguishes between start-ups (enterprises which have not paid wages for the last three months), new firms (those that are between three months and 3.5 years old) and established firms (those enterprises older than 3.5 years).

The classification of the businesses within the sample according to EDM criteria is shown in Figure 8.9.

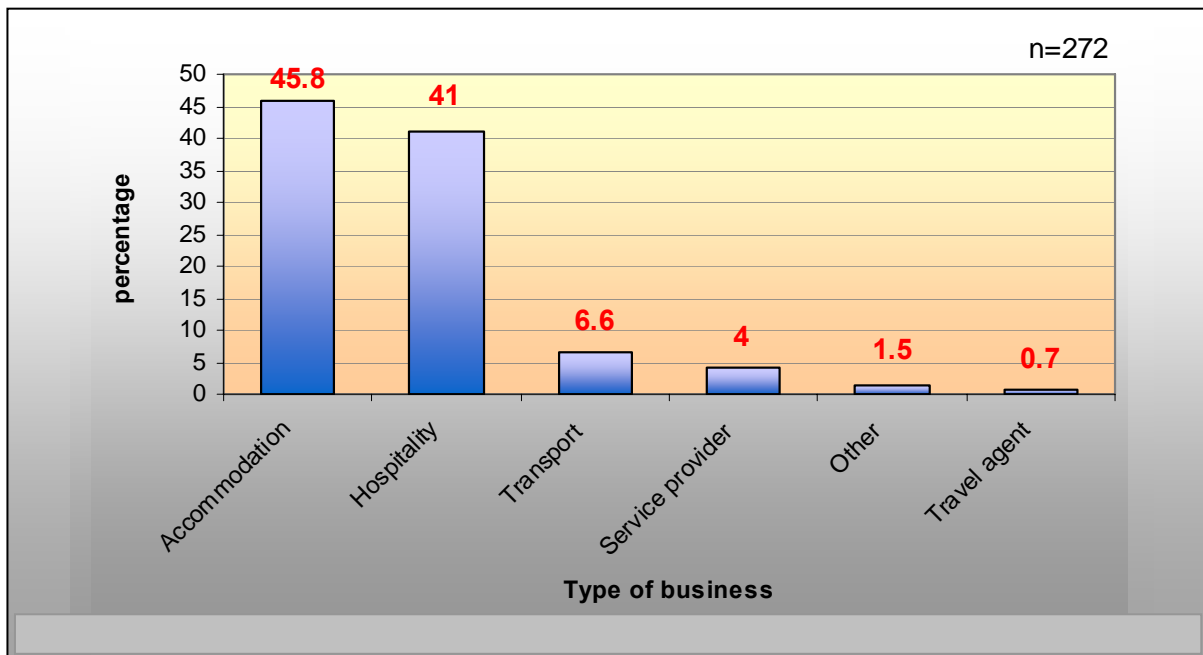


Figure 8.9: Description of business

The majority of respondents came from the accommodation and hospitality industries.

Although use has been made of stratified random sampling, the large number of accommodation and hospitality establishments might cause a bias towards these categories.

The source of finance originally used to fund the establishment of the enterprise is analysed in Figure 8.10.

The majority of respondents financed their businesses by means of own contribution. Possible explanations for this phenomenon include the following:

- The amount of finance originally required to start the business was not very big.
- Most establishments were started by well-off entrepreneurs.

- Original entrepreneurs did not know of the existence of government financial support.
- Support from government was not available prior to identification of tourism as a growth industry by the government's White Paper (1996).

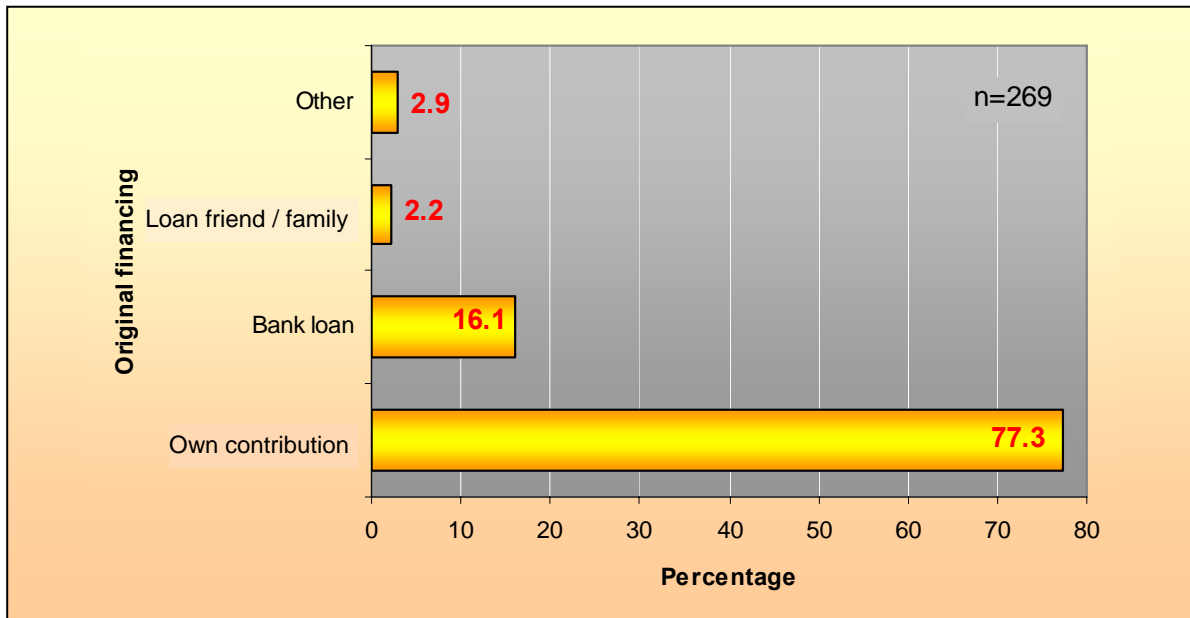


Figure 8.10: Original financing of businesses

Considering the large number of respondents who made use of own funds to start their businesses together with the form of business ownership given by respondents (see Figure 8.1) and the degree of prior business experience respondents (see Figure 8.3), one could speculate as follows: has the first mover advantage gained by entrepreneurs making use of own funds to finance their entry to the industry not cancelled the ease of entry characteristic of certain industry sectors such as guest houses and hotels? This speculation could provide an interesting avenue for future research.

8.3.3 Summary – Section A

SME's were very well represented in the sample interviewed with most enterprises either being a sole proprietorship or a close corporation and the majority of owners being full-time active in their enterprise and having had business experience prior to start-up.

The majority of businesses could be classified as small according to their turnover and the number of employees in service. Furthermore, according to the percentage of income attributed to tourism, the vast majority could be classified as being in the tourism industry.

Approximately half of the businesses interviewed had been in business for more than 10 years and the majority were independent entrepreneurs with no association with other businesses, and who started up their businesses with their own funds.

8.3.4 Section B – Job creation and tourism visitors

This section addressed the issue of the number of jobs created and attempted to meet objective No. 6.

Question 13 attempted to test the mood of respondents as to their expectations of business growth for the following year. Answers also served as a check on the job creation expectations of respondents for the year 2006.

Table 8.3: Expectations of future industry growth

Category	Count	Percentage
Yes (positive)	216	79.1
No (negative)	56	21.5
Missing	1	0.4
Total	273	100.0

By far the majority of respondents, 79.1%, felt positive about future growth in the tourism industry.

Questions 14 through to 17 were designed to measure the growth rate of job creation in the local industry. The results are summarised in Table 8.4.

The average growth rate of job creation over the period 2003 to 2006 amounts to 7.98% per year. This figure relates positively to the growth rates of international and domestic tourism calculated in Annexure 9 as 4.84% and 4.45% respectively.

This translates into a direct employment multiplier of between 1.65 and 1.79, a figure that compares very favourably with the general tourism multiplier figure of 1.82 established by the South African Foundation View Point (July 1999) and reported in Section 3.3.6.2 of this study.

Table 8.4: Summary of employment figures 2003 to 2006

Year	Description	Full time	Part time	Total	Increase year on year
2003	Guest Houses	673	113	786	
	Restaurants	1296	611	1907	
	Catering/hospitality	37	13	50	
	Transport	163	16	179	
	Hotels/motels	545	72	617	
	Sub-total	2714	825	3539	
2004	Guest Houses	752	130	882	12.21%
	Restaurants	1488	620	2108	10.54%
	Catering/hospitality	39	15	54	8.00%
	Transport	167	14	181	1.12%
	Hotels/motels	626	72	698	13.13%
	Sub-total	3072	851	3923	10.85%
2005	Guest Houses	790	150	940	6.58%
	Restaurants	1602	654	2256	7.02%
	Catering/hospitality	41	15	56	3.70%
	Transport	163	15	178	(1.66%)
	Hotels/motels	645	87	732	4.87%
	Sub-total	3241	921	4162	6.09%
2006	Guest Houses	810	159	969	3.09%
	Restaurants	1709	687	2396	6.21%
	Catering/hospitality	43	16	59	5.36%
	Transport	175	18	193	8.43%
	Hotels/motels	679	90	769	5.05%
	Sub-total	3416	970	4386	5.38%
Average	Percentage Growth	8.62%	5.86%	7.98%	

This growth rate is illustrated in Figure 8.11.

A puzzling observation in the above diagram is the growth rate of the proportion of part-time employees to full-time employees. In all four years the ratio part-time to full-time employees has been approximately 22%. This is probably due to the seasonality so characteristic of the tourism industry.

The growth rates of the different categories over the period 2003 to 2006 are illustrated in Figure 8.11(b).

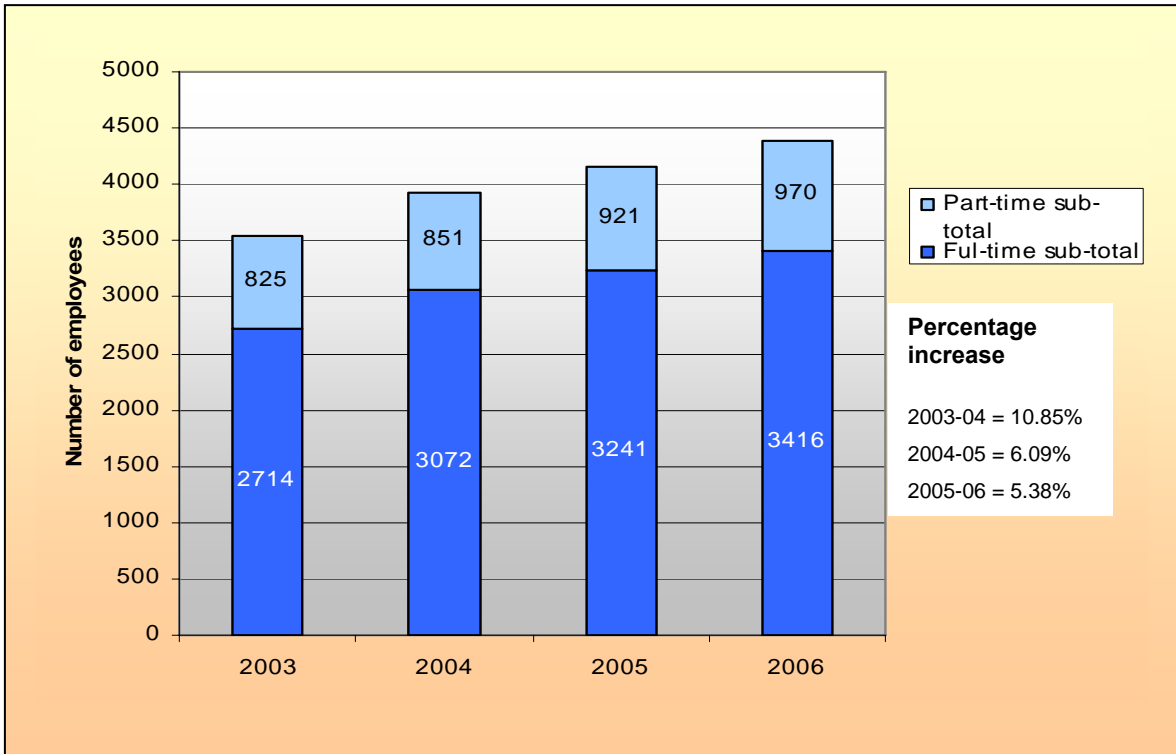


Figure 8.11(a): Total number of employees full-time and part-time

The individual average growth rates for full-time employees over the period 2003 to 2006 amounts to 6.79% for guest houses, 10.62% for restaurants, 5.4% for catering/hospitality, 2.45% for transport and 8.2% for hotels/motels.

Referring to Figure 8.11(c), the individual average growth rates for part time employees over the same period is 13.57% for guest houses, 4.15% for restaurants, 7.69% for catering/hospitality, 4.17% for transport and 8.33% for hotels/motels.

It is observed that restaurants are the only category which shows a higher growth rate in full-time employees as compared to the growth rate in part-time employees. No inferences can be made about the above mentioned figures.

The final question in this section attempted to ascertain if respondents experienced any difficulties in obtaining qualified staff.

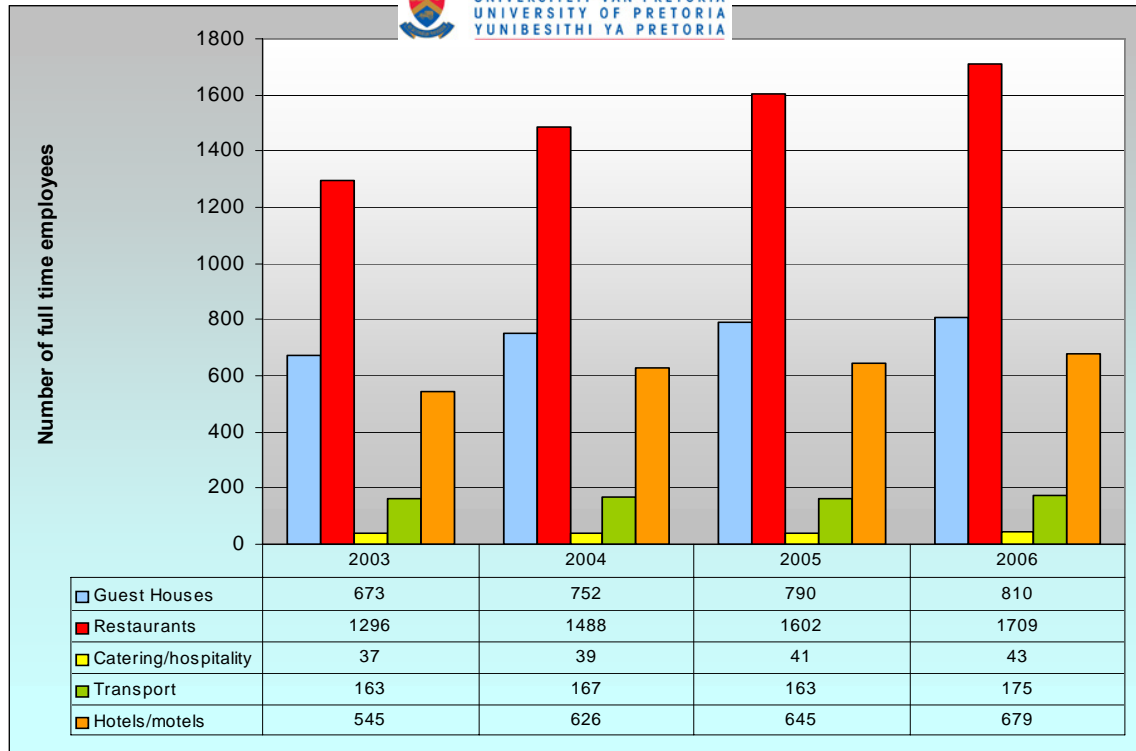


Figure 8.11(b): Number of full time employees per category

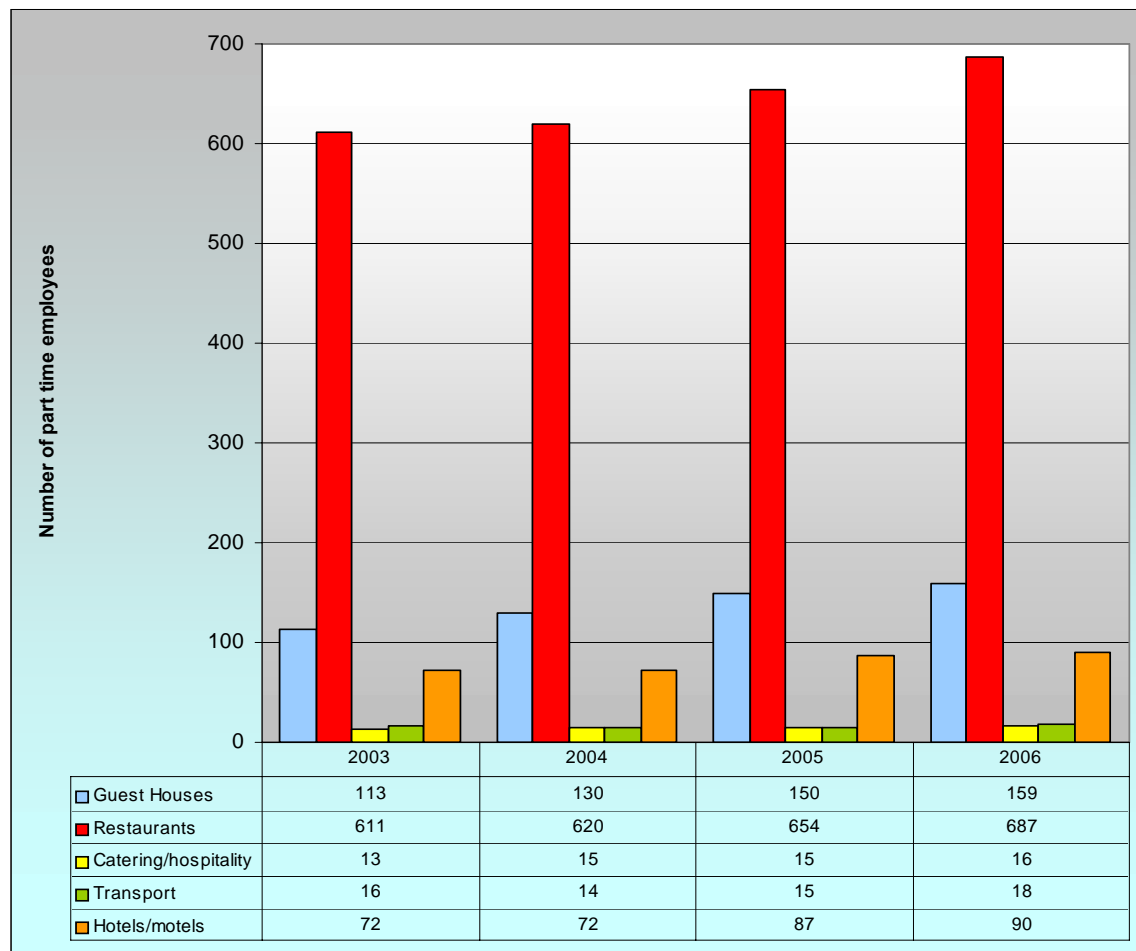


Figure 8.11(c): Number of part time employees per category

From Figure 8.12 it is evident that obtaining qualified staff poses a problem to approximately 50% of respondents while the same number experiences no problems in obtaining qualified staff. Querying this phenomenon, a relationship between the yes and no answers (question 18) and the type of business activity (question 11) was sought.

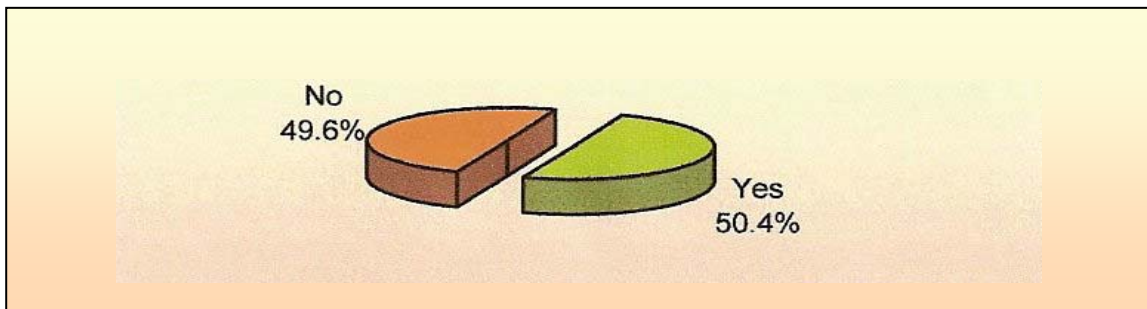


Figure 8.12: Difficulty experienced in obtaining experienced staff

Table 8.5: Correlation between firms experiencing difficulty in acquiring trained staff and the type of enterprise

	Question A11	B18 Yes	B18 No	Row Totals
Count	Accommodation	59	66	125
Row percent		47.20%	52.80%	
Count	Transport	4	14	18
Row percent		22.22%	77.78%	
Count	Hospitality	55	55	110
Row percent		50.00%	50.00%	
Count	Travel agents	1	1	2
Row percent		50.00%	50.00%	
Count	Service provider	2	9	11
Row percent		18.18%	81.82%	
Count	Other	0	3	3
Row percent		0.00%	100.00%	
Count	All groups	121	148	269

In Table 8.5 the presence of the two small groups – travel agents and other – makes the chi-squared test doubtful. It was, therefore, decided to repeat the exercise leaving out the two groups previously mentioned.

Table 8.6: Correlation between firms experiencing difficulty in acquiring trained staff and the type of enterprise – excluding travel agents and other

	Question A11	B18 Yes	B18 No	Row Totals
Count <i>Row percent</i>	Accommodation	59 47.20%	66 52.80%	125
Count <i>Row percent</i>	Transport	4 22.22%	14 77.78%	18
Count <i>Row percent</i>	Hospitality	55 50.00%	55 50.00%	110
Count <i>Row percent</i>	Service Provider	2 18.18%	9 81.82%	11
Count	All groups	120	144	264

Pearson Chi-squared = 8.3

Df = 3

P-value = 0. 04

Since the P-value is less than 0.05, it can be concluded that there is a statistically significant association between the two variables.

It would seem that certain tourism enterprises are more sophisticated than others, and require a better trained employee to supply the service or services offered. In this case it could quite conceivably be that the enterprise that requires a more highly trained employee, would have difficulty in finding suitably trained staff.

8.3.5 Summary – Section B

The vast majority of respondents exhibited an optimistic viewpoint of the future growth of the tourism industry. This was also reflected in respondents' vision of job growth, illustrated in Figure 8.11(a) and Table 8.4.

An analysis of past and future employment figures, when compared to the average growth rates of both international and domestic tourism, made it possible to predict a direct employment multiplier of 1.72 for the Southern Cape region.

The employment growth figures obtained in this study for the Southern Cape region (7.98%) compares favourably with those projected for the period 2002 to

2012 for South Africa as a whole (3.79%), Sub-Saharan Africa (5.1%) and the World at large (2.66%) by the World Travel & Tourism Council (2002).

8.3.6 Section C – Government incentives

This Section tested the awareness by businessmen of available government incentives to the tourism industry as well as the extent to which use had been made of such incentives. In so doing answers to meet objective No. 7 were sought.

Figure 8.13 shows that the awareness of government incentives is split equally between those that are aware and those that are not aware of these incentives. Once again a relationship between the yes and no answers (question 19) and the type of business activity (question 11) was sought.

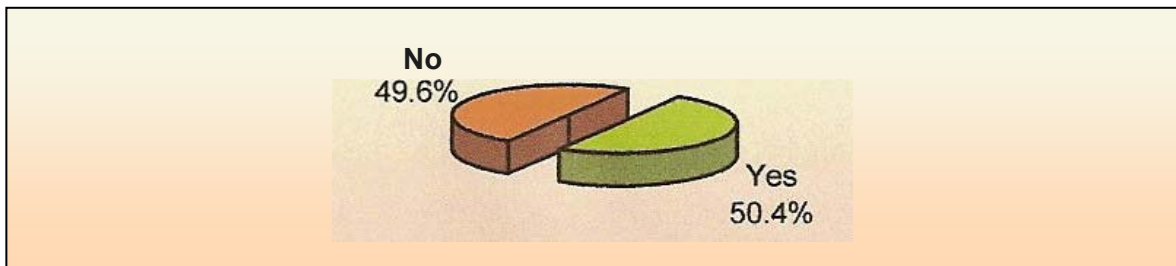


Figure 8.13: Awareness of government incentives to the industry

In Table 8.7 the presence of the two small groups – travel agents and other – make the chi-squared test doubtful. It was, therefore, decided to repeat the exercise leaving out the two fields previously mentioned.

It would seem that the majority of accommodation owners were aware of government incentives for the industry, while the majority of the transport, hospitality, and service providers were unaware of the existence of incentives to the industry.

Table 8.7: Correlation between awareness of government incentives and business description

	Question A11	B18 Yes	B18 No	Row Totals
Count <i>Row percent</i>	Accommodation	84 67.20%	41 32.80%	125
Count <i>Row percent</i>	Transport	8 44.44%	10 55.56%	18
Count <i>Row percent</i>	Hospitality	39 35.14%	72 64.86%	111
Count <i>Row percent</i>	Travel agents	0 0.00%	2 100.00%	2
Count <i>Row percent</i>	Service provider	5 45.45%	6 54.55%	11
Count <i>Row percent</i>	Other	1 25.00%	3 75.00%	4
Count	All groups	137	134	271

Table 8.8: Correlation between awareness of government incentives and business description — excluding travel agents and other

	Question A11	B18 Yes	B18 No	Row Totals
Count <i>Row percent</i>	Accommodation	84 67.20%	41 32.80%	125
Count <i>Row percent</i>	Transport	8 44.44%	10 55.56%	18
Count <i>Row percent</i>	Hospitality	39 35.14%	72 64.86%	111
Count <i>Row percent</i>	Service provider	5 45.45%	6 54.55%	11

Pearson Chi-squared = 24.7

Df = 3

P-value = 0.00

Since the P-value is less than 0.05, it can be concluded that there is a statistically significant association between the two variables.

Research results of the Global Entrepreneurship Monitor – South African Reports (2004:46), indicated that perceptions of government by small enterprises were very weak.¹⁸ Research results showed that:

- 62% of their sample gave the government’s overall promotion of small enterprises a negative rating.
- 71% of enterprises rated the government’s, communication of incentives as negative.
- 65% rated the government’s communication of legislation as negative.

Question 20 tried to ascertain from those respondents that were aware of government incentives, who /what their source of knowledge was. The response to this question is reflected in Figure 8.14.

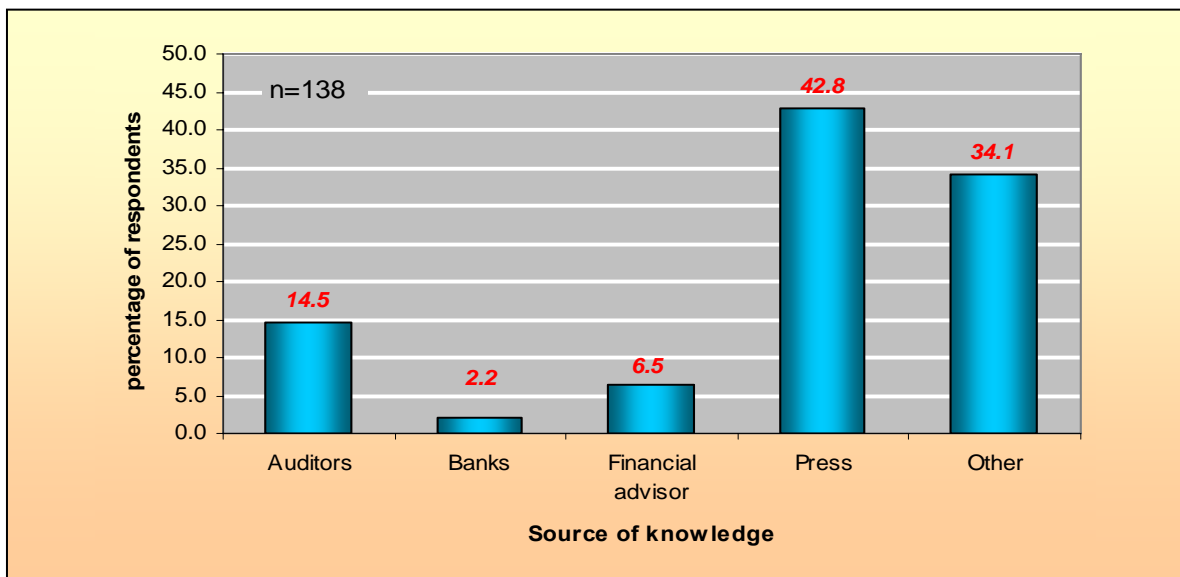


Figure 8.14: Source of knowledge

The press and other media were the source of information for 76% of respondents. It seems a little surprising that this information was not forthcoming from auditors, banks and financial advisors.

¹⁸ According to GEM (2004) this reflects a problem of communication. GEM acknowledges that, at the time of publishing, the government had already started to address the problem.

Questions 21 and 22 attempted to determine how many respondents had actually made use of government incentives and if they could recall which instrument was used.

Only 10.3 % of respondents had made use of government incentives. Of the 28 respondents that answered positively, only 18 (6.6%) were able to identify which government incentive or subsidy they had made use of. Similar findings were made by the GEM (2004:46). For example, they found that awareness and use of support from Khula, Brain and Umsobomvu was below 10%. Figure 8.15 shows the usage of government incentives.

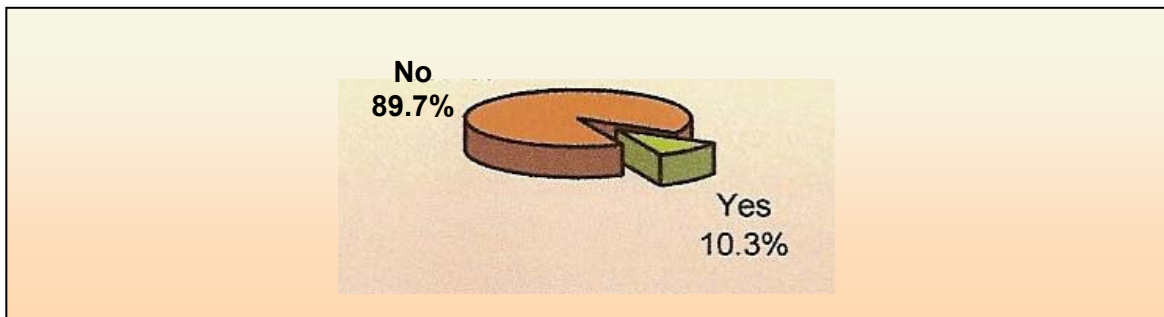


Figure 8.15: Use of government incentives

8.3.7 Summary – Section C

Approximately one half of respondents were aware of government incentives for the tourism industry, hearing thereof mainly from the press. This seems strange since one would expect that this kind of knowledge would come from auditors, banks and financial advisors, who are normally regarded as experts in the fields of finances concerning the industry. Only 10% of respondents interviewed had made use in the past, or were currently making use of these incentives.

Although it is possible to interpret this as that the industry had no need of incentives, it seems rather to reflect the fact that SME's are not aware that such incentives exist. This conclusion is supported by the GEM (2004) who report that both awareness and use of government support is extremely low in South Africa.

The future measurement of knowledge concerning government incentives to SME's among this group could provide interesting insights as to why so few tourism-related SME's are making use of these incentives.

8.3.8 Section D — Requirement for growth

This section represented the opinions of respondents as to what they considered to be important factors contributing to the future growth of their business and what role local government should play in encouraging this growth. This section attempted to meet objectives No. 8 and 9.

Question 24 in the questionnaire attempted to find out to what degree linkages and networking strategies were being used by local SME's. Figure 8.16 reflects the number of small businesses that enjoy referral support from large tourism enterprises.

The majority of respondents felt that they seldom or never received referrals from larger tourism enterprises. The greatest percentage, 37.6%, reported that they only sometimes received referrals.

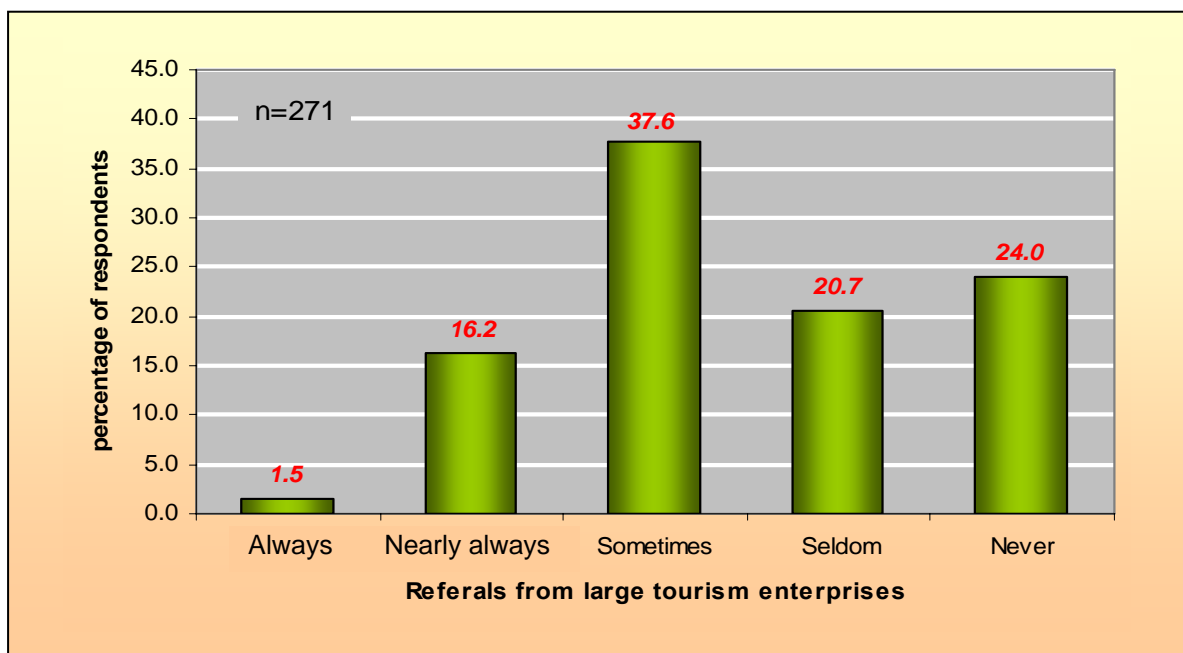


Figure 8.16: Referrals from large tourism enterprises

This phenomenon reflects the lack of “linkages”, regarded as international best practice in the industry, and should be addressed by the strategy formulated in Chapter nine.

Figure 8.17 reflects the attitude of respondents to the role that local government should play in the tourism industry.

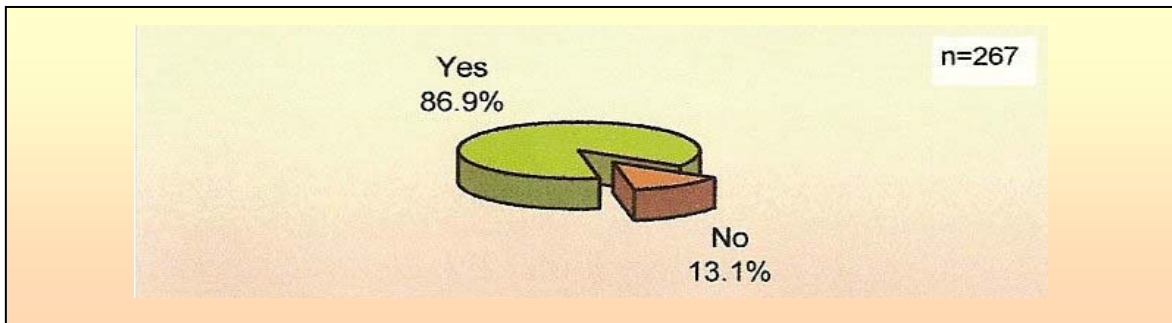


Figure 8.17: Should local government play a more active role?

The overwhelming majority (87%) of respondents were of the opinion that local government should play a more active role in the development of tourism-related small businesses.

Question 26 attempted to establish how important certain identified factors were to ensure growth of respondents’ businesses. Respondents were asked to rate each factor on a five-point scale ranging from extremely important to not important.

The factors represent areas which have been identified in the literature study as possible contributors to the successful development of SME’s in the tourism industry, and which could be implemented as intervention strategies by local government.

Figure 8.18 reflects the opinion of respondents regarding these factors.

More than 50% of respondents rated each of the above factors as being very important to extremely important. Tax breaks was rated by respondents as the most important factor contributing to SME development, while access to cheap finance was regarded as the least important of the identified factors.

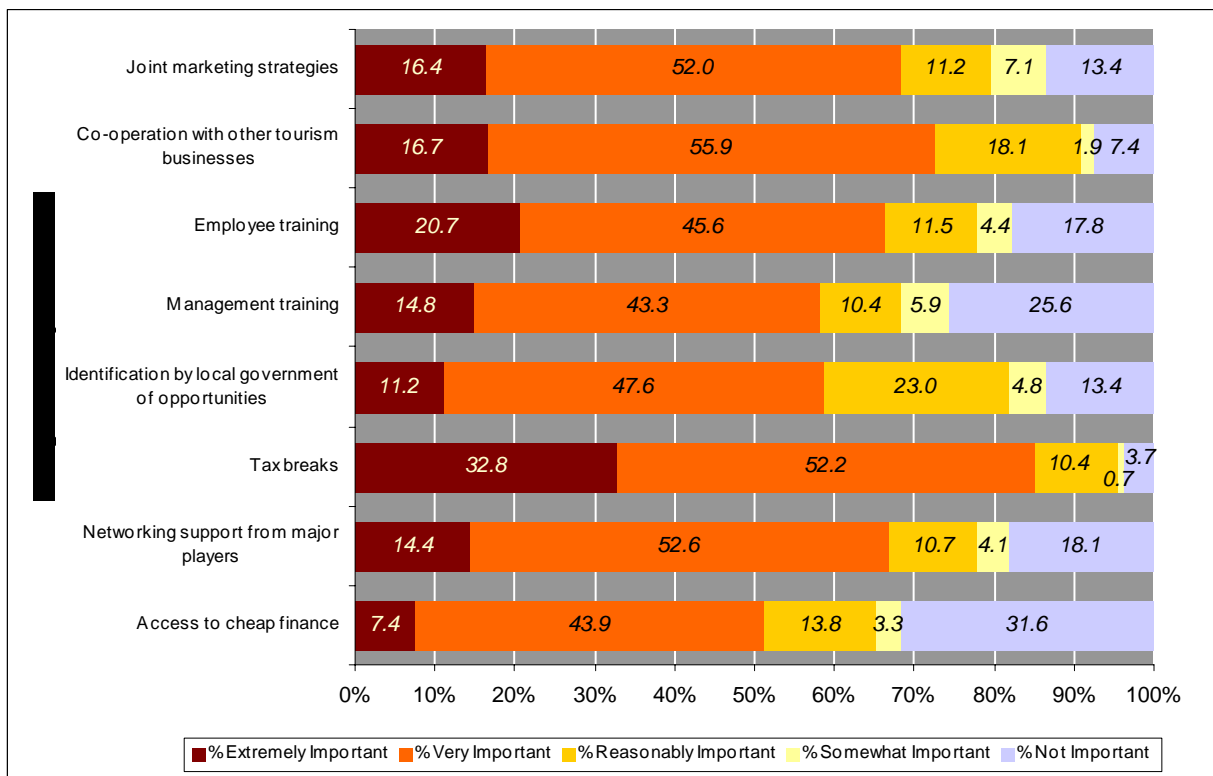


Figure 8.18: The rating of development factors

A possible explanation for the choice of tax breaks as the most important development factor, could be that it is seen by respondents as a factor which could finance the expansion of facilities and as such become an important incentive for the development of SME's.

Possible reasons for the low ranking of access to cheap finance as a development factor could be that:

- The development of SME's is seen as coupled to increasing the physical capacity of the enterprise and not being necessary for the better utilisation of existing capacity.
- Alternatively, to those entrepreneurs in need of finance for expansion, the access to finance is more important than the cost associated with it (cheap finance).

The final question in this section tried to establish from respondents whom they thought should accept responsibility for the implementation of certain identified

development factors. These development factors were identified in the literature study as either being prerequisite to successful SME development (developing tourism policy, planning for tourism as an industry, and developing a joint vision) or, as being interventions which were not contrary to free market principles but could contribute greatly to the development of tourism-related SME's.

Figure 8.19 reflects the opinions of respondents as to the allocation of responsibility for the implementation of development factors. Respondents were allowed to choose more than one alternative.

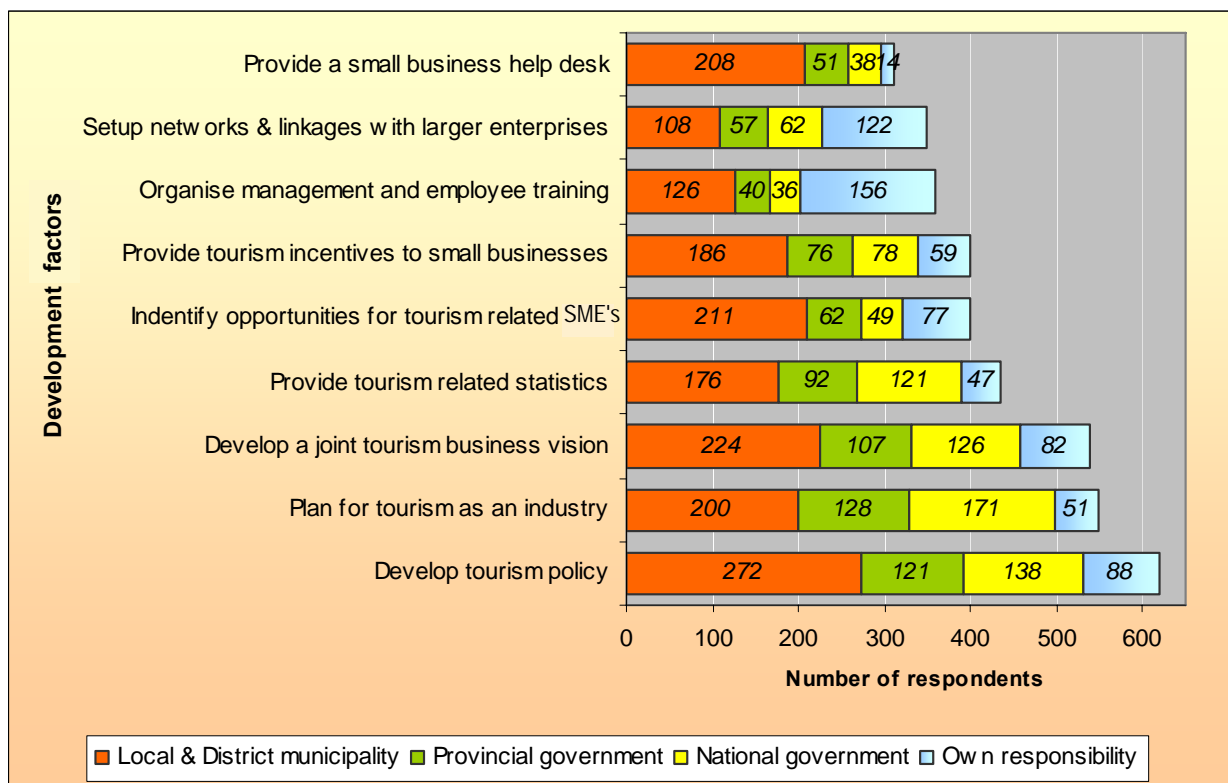


Figure 8.19: Spheres of responsibility for the implementation of development factors

With the exception of two factors (organising management and employee training, and setting up networks and linkages with larger enterprises) respondents displayed an overwhelming opinion that these factors should fall within the realms of local and district government responsibility. This reinforces several findings from the literature study. They are:

- The need for better planning and management training (see Section 3.7.5).
- The decentralisation of policy formulation, the following of international best practices and the establishment of incubators or entrepreneurship support organisations (see Section 4.5 and Table 4.2).
- Planning should take place at regional and local levels within policy guidelines set nationally and internationally (see Section 5.6).
- Government interventions must also address supply-side issues, and cognisance should be taken of local demographics (see Section 6.6).
- Apply both efficiency enhancing policies and special entrepreneurship support policies (see Section 7.5).

8.3.9 Summary – Section D

Respondents very rarely, if ever, received referrals from larger tourism enterprises. This highlights the need to educate larger role players in the industry as to their social responsibility towards helping to develop the local tourism industry.

The vast majority of respondents felt that local government should play a more active role in developing tourism-related small businesses.

Rating the importance of various factors that influence the growth of tourism-related SME's, respondents were almost equally divided as to the importance of access to cheap finance. The following factors were rated to be very important or extremely important:

- networking support from major players;
- tax breaks as an incentive;
- identification of opportunities by local government;
- management training;
- employee training;
- co-operation with other tourism businesses; and
- having joint marketing strategies.

Respondents felt that the development of tourism policy should not be confined to one sphere of government but, rather, that national, provincial, district and local governments should all be involved.

The majority of respondents felt that local government should play a leading role in providing incentives to small businesses. This is possibly in reaction to what was perceived to be a large communications gap between grass-roots entrepreneurs and national government.

It is accepted that planning for tourism as an industry is the responsibility of national government. However, it is interesting to note that respondents felt that provincial and local government should also play a part.

The provision of tourism-related statistics should be the responsibility of all spheres of government.

Respondents were of the opinion that local government should involve themselves more in identifying opportunities for tourism-related small businesses.

Local government should become more involved in developing a joint tourism business vision and in providing small businesses with a small business help desk.

8.4 TOWARDS FORMULATING A STRATEGY FOR THE DEVELOPMENT OF TOURISM-RELATED SME'S

Considering the preceding findings, a strategy for the development of tourism-related SME's should incorporate the following aspects:

- Information about the availability of incentives for SME's that operate in the tourism industry is not getting through to businesses, and only a small number of SME's make use of these incentives.
- There is a need to educate larger role players in the industry as to their social responsibility towards helping to develop the local tourism industry.

- The study area lends itself to government intervention in the form of an incentive for larger role players to encourage them to fulfil their social responsibility.
- Local government should play a more active role in developing tourism-related small businesses.
- Networking, tax breaks, identification by local government of opportunities, training, co-operation with other tourism businesses and having joint marketing strategies are all regarded as being very important factors affecting the growth of SME's and as such should be incorporated in any development strategy.
- The development and implementation of growth factors should become the responsibility of local and regional spheres of government. This responsibility should be reflected in any strategy that aims to develop tourism-related SME's.

8.5 SUMMARY

This chapter has reported on, and discussed, the findings of the empirical study. It identified certain issues which specifically apply to the Southern Cape. Acknowledging the fact that some of the factors identified by respondents as being required to form part of a local development strategy may not be feasible, an analysis thereof with informed specialists is reported on in Section 9.5 of Chapter nine.

These issues / needs / perceptions will be combined with those identified in Section A of this study in order to arrive at a model / framework for the development of tourism-related SME's. This will take place in the following chapter.

Section 3

Chapter 9

A STRATEGY FOR THE DEVELOPMENT OF SMALL BUSINESSES OPERATING IN THE TOURISM SECTOR OF THE SOUTHERN CAPE

9.1 INTRODUCTION

Chapter nine represents Section 3 of the study, as depicted in Figure 2.2. The findings of the literature study (Section 1) are integrated with the results of the empirical study (Section 2) in order to develop a strategy for the development of tourism-related small businesses in the Southern Cape region.

This chapter is the culmination of the study, the purpose of which was to formulate a strategy for the development of tourism-related SME's operating in the Southern Cape, with a view to stimulating job creation, and to place the strategy within a suitable framework.

In summary, the preceding chapters have established the following:

- Chapter three – identified the role played by small businesses in the tourism economy and established that small business development could be equated with entrepreneurship development. The importance of considering the role of local culture on the level of entrepreneurship was highlighted.
- Chapter four – established that small businesses had a future under conditions of globalisation if certain international best practices were followed. These practices were identified and categorised according to area of responsibility.
- Chapter five – discussed the concept of planning and determined the role that planning should play as well as the government level at which it should take place. The levels considered were those of National,

Provincial, Regional and Local government. A strong argument in favour of regionalism was put forward and resulted in the choice of the local and regional governments for the function of planning and operational planning.

- Chapter six – offered a critical analysis of the role played by the South African Government in the local tourism industry and considered the Southern Cape as a case study.
- Chapter seven – provided an overview of SME development and entrepreneurship development models which are applicable to the South African situation. It also established the necessity of developing a framework within, and complementary to, the overall regional economic development strategy.
- Chapter eight – reported the results of the empirical study which reflected the desires, needs and perceptions of local tourism-related SME's with regard to the creation of additional employment opportunities.

The objective of this chapter is to integrate the information gathered from the literature study with that obtained from respondents in the empirical study, and to develop a strategy for the development of tourism-related small businesses that operate in the Southern Cape region (Objective No. 10).

This will be achieved by:

- identifying certain framework considerations;
- depicting them schematically;
- discussing the framework and how its success will be measured; and
- highlighting limitations of the framework / model with a view to making recommendations.

9.2 FRAMEWORK CONSIDERATIONS

The framework that follows has certain objectives and outcomes to be achieved. With this in mind, a certain methodology will be followed. The framework will also identify role players in the exercise, their actions or interventions, and where these actions should take place (i.e. at what level should they be implemented).

9.2.1 Aims and outcomes

The aim of this study is set out in Section 1.4. The aim of the proposed framework is to represent the strategy that is formulated for the development of tourism-related SME's. The success of this strategy will be reflected by the creation of additional employment opportunities within small businesses operating within the tourism sector of the Southern Cape region and, in so doing, ensure the equitable distribution of the positive benefits associated with the tourism industry among the people of the region.

Other outcomes resulting from the successful implementation of the model, and which are closely associated with the main aim, are the following:

- increased start-ups and entrepreneurship;
- skills and human resource development;
- new products, services and technologies,
- job creation;
- economic transformation (e.g. BEE); and
- social stability.

9.2.2 Construction methodology

To achieve these outcomes, the objectives of the proposed model were aligned with those of the proposed local economic development plan for the area. Those interventions that will achieve these objectives will be considered (See Figure 7.8, Section 7.4.2 and Table 4.2 in Section 4.4). The objectives are:

- to develop an entrepreneurial economy (establishing an environment which is conducive to encouraging new business start-ups);
- to stimulate entrepreneurship (the emergence and growth of new businesses);
- to stimulate local SME participation in the economy (the expansion of existing businesses); and
- to increase the competitiveness of local SME's.

By reaching these objectives the desired outcomes will be achieved.

9.2.3 Assumptions

Section 1 of the study (see Figure 2.2) identified those assumptions on which a development framework could be based. The assumptions have been categorised, firstly, as those assumptions which are applicable to all SME's and are termed general assumptions. The second category of assumptions includes those that are applicable to the tourism industry and are termed industry-specific assumptions. The final category includes those assumptions that apply to the Southern Cape region and are termed regional-specific assumptions.

9.2.3.1 General assumptions

- It has been established that the development of SME's can be equated with the development of entrepreneurship. This framework accepts this fact and incorporates it in the strategy (Section 3.4.1).
- One of the characteristics of the tourism industry is the fact that it operates under conditions of imperfect competition, and as such government intervention is necessary. Such interventions are also warranted if one considers the necessity of making special allowances to accommodate previously disadvantaged individuals (Section 6.5).
- National government has adopted the principle of SME development and entrepreneurship development as official government policy (Section 6.3).
- National government accepts the responsibility of providing an enabling environment for the development of SME's and entrepreneurship (Section 7.6.4).
- Planning for the development of small businesses should be decentralised and follow the route of regionalism whereby local and regional spheres of government are more involved, especially in the operational aspect of the planning function. Regional and local planning should take place along the policy guidelines set by the provincial and national governments. The proposed framework, therefore, confines itself to the local and regional

spheres of government only. Furthermore, the planning approach that is recommended is economically oriented and encompassing sustainability, community involvement and the integrated quality approach (Sections 5.3, 5.4, 5.5 and 5.6).

9.2.3.2 Industry-specific assumptions

- Industry characteristics in developing countries include the fact that there often exists a situation of imperfect competition. As such, the development of tourism-related SME's requires that provision be made for government interventions which will ensure the equitable distribution of opportunities among the local population (Section 6.5).
- The tourism-specific strategy that is developed should take cognisance of the region's overall economic strategy and supplement / complement such a strategy (Section 7.4).
- The framework should acknowledge any constraints placed on it that emanate from the local attitude towards entrepreneurship and should actively strive to influence this attitude advantageously (Section 7.2.3).
- The characteristic of seasonality and its influence on the sustainability of job creation should be taken into consideration (Section 3.5).
- The industry characteristic of leakages is not considered desirable and should be actively discouraged (Chapter 4).
- Since the industry is so fragmented and diverse, local government should accept the fact that it must organise itself into two separate divisions or branches, one catering for the marketing and promotional requirements of the industry (the demand side), while the other oversees the infrastructure and SME development requirements of the industry (the supply side) (Section 7.5).

9.2.3.3 Region-specific assumptions

- The population group that is most responsible for population growth in the area is the group of eighteen to thirty-five year old black youths who come

to the area to find work opportunities. The framework must make provision for their inclusion in the strategy (Section 6.4).

- The strategy should address the backlog of PDI (Section 6.4).
- The framework should be based on existing municipal processes (IDP) for the identification and funding of projects.
- The concept of Regionalism is actively pursued within the strategy (Section 5.6).

9.2.4 Components / role players

Although the vital role played by regional and local government in developing an industry specific SME development strategy is acknowledged, the model recognises that, although to a lesser extent, other institutions also have a role to play. Role players are identified as local and regional government, educational institutions (Further Education Training [FET] for NQF levels 1 to 4, and Higher Education [HE] for NQF levels 5 to 8), the community (including NGO's), business and organised labour. Provision is also made for contributions from the general community through Corporate Social Investment (CSI) (Section 6.3.1).

The framework not only identifies role players, but also stipulates and identifies those activities or actions (interventions) which the different role players can bring into operation at the local and regional levels to achieve the planning objectives (Section 3.4.5).

The types of planning activities or functions are also identified. For example, at the regional level the planning functions are specified as comprising both planning and operational planning, while at the local level the function is chiefly that of operational planning.

9.3 FRAMEWORK DEVELOPMENT

The framework depicts, schematically, a strategy for the development of tourism-related SME's and entrepreneurship within the Southern Cape region. The

framework is based upon certain assumptions, which are termed general assumptions, industry specific assumptions and region specific assumptions.

The model acknowledges that, although other levels of planning and policy determination exist (for example, the national and provincial levels), a strategy of regionalism, advocated as international best practice and supported by local tourism entrepreneurs, should be followed. It therefore identifies only those interventions that can be implemented by the different role-players at the regional and local levels of government.¹⁹

These activities or interventions are aimed at achieving identified objectives, which, when applied to the tourism sector of the Southern Cape, give rise to the desired outcomes which include the creation of more job opportunities. The framework encourages the measurement of results, feedback and the taking of corrective action. The model is therefore strategic in nature.

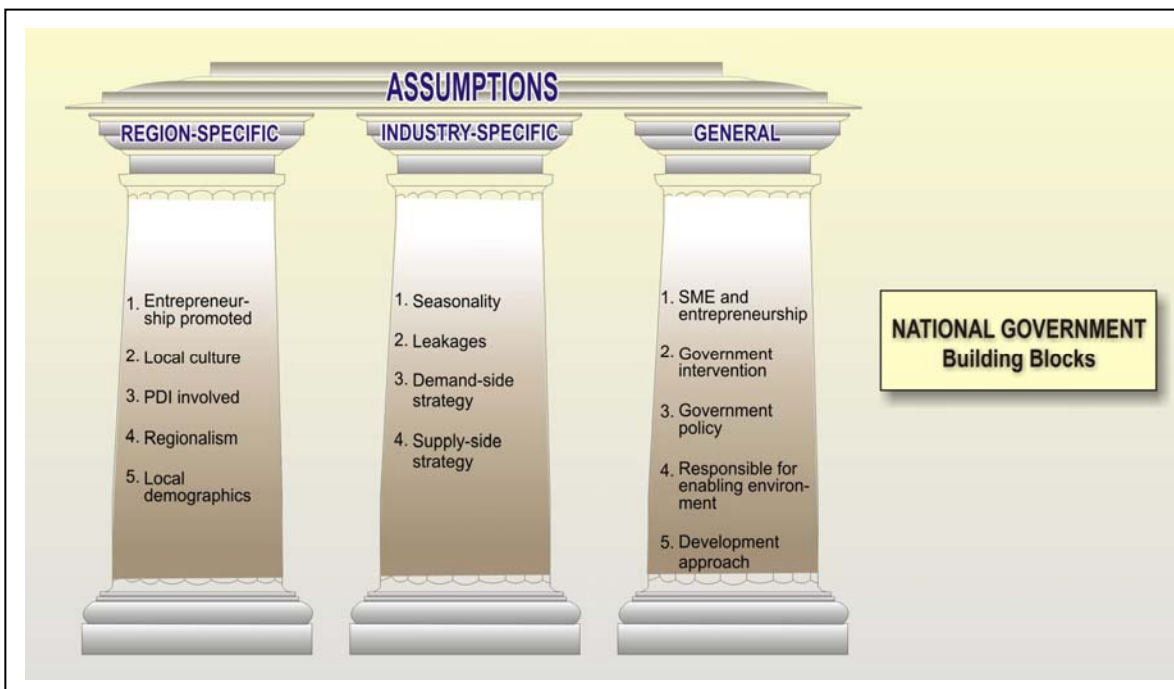


Figure 9.1: Framework components – Assumptions

It is accepted that the responsibility of providing a level playing field rests with national government and that the general, industry-specific and regional-specific

¹⁹ For an explanation of the differences between the regional and local levels, see Section 5.4.2 and Figure 6.1.

assumptions on which this strategy is built, play a leading role in achieving this level playing field. These three categories of assumptions represent the building blocks or foundations on which the model rests. Figure 9.1 depicts that portion of the framework on which the remaining part of the model rests.

These foundations serve to support the actions and planning activities at the various levels or spheres identified in Chapter five. However, if the concept of regionalism is pursued and attention is paid to the strong need for greater local government participation as expressed by respondents in the empirical study, then this framework considers only the regional and local levels of intervention.

Figure 9.2 reflects the intervention actions at the regional level.

Similarly, Figure 9.3 depicts intervention actions at the local level.

Annexure 11 and Annexure 12 contain a more detailed explanation of the various interventions which are depicted in the framework and which can be applied to achieve the stated objectives.^{20, 21}

The framework is represented by means of a box-like structure. The back and left side of the box-like structure are folded out by 180 degrees and 90 degrees respectively, in order for the reader to visualise, at a single glance, all the interventions that can be implemented.

On the sides of the framework the level under consideration is shown as well as the role players involved, the planning function applicable to that particular level, and a description of the planning functions.

²⁰ Those intervention actions which are not able to be implemented at these levels, are categorised under the action of “lobbying”

²¹ The interventions specified above as those to be lobbied for, were identified during personal interviews with Prof. F Hanekom (experience in the field of local government), Prof. E Van Biljon (NMMU) and M Hooghbaard (Local Economic Development officer of the Eden District Municipality).

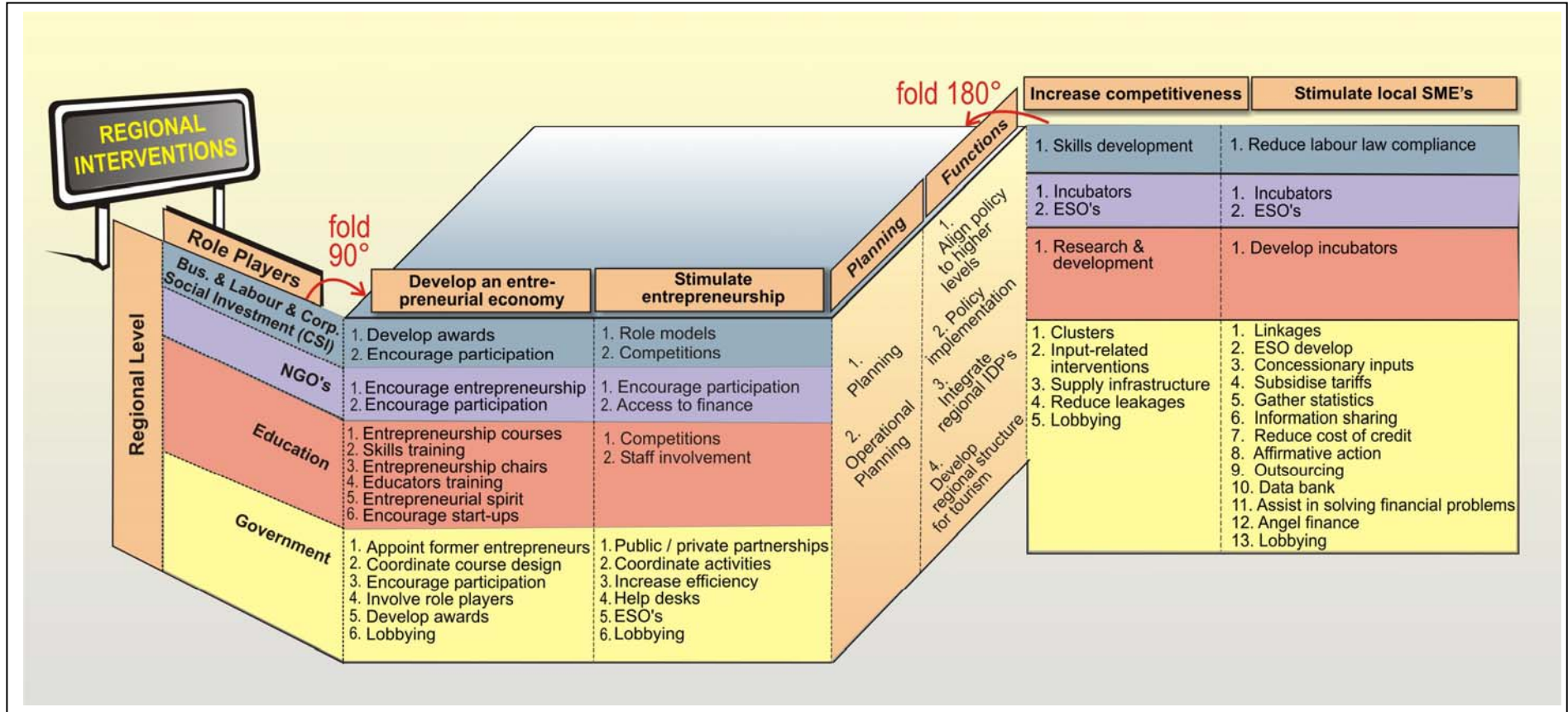


Figure 9.2: Framework components – regional interventions

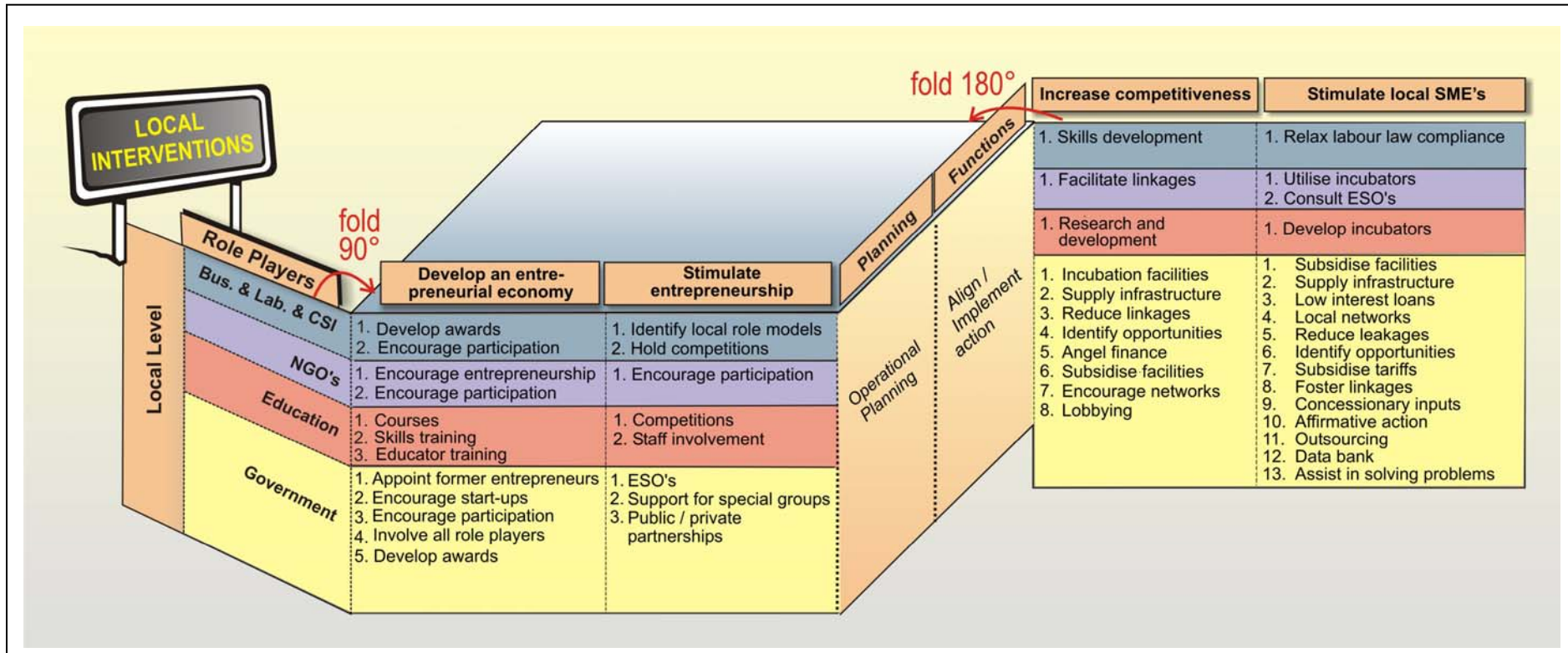


Figure 9.3: Framework components – local interventions

The front and back of the box-like structure identifies, per level per role player, those interventions that can be employed to achieve the specific objectives shown immediately above these interventions in the model.

Due to limited space, those interventions are only identified in a cryptic manner. However, a more elaborative description of the interventions is provided in Annexures 11 and 12.

The above interventions have an impact on the local tourism industry by influencing one or more of the objectives, which in turn result in the depicted outcomes. Figure 9.4 reflects these areas of influence and resulting outcomes.

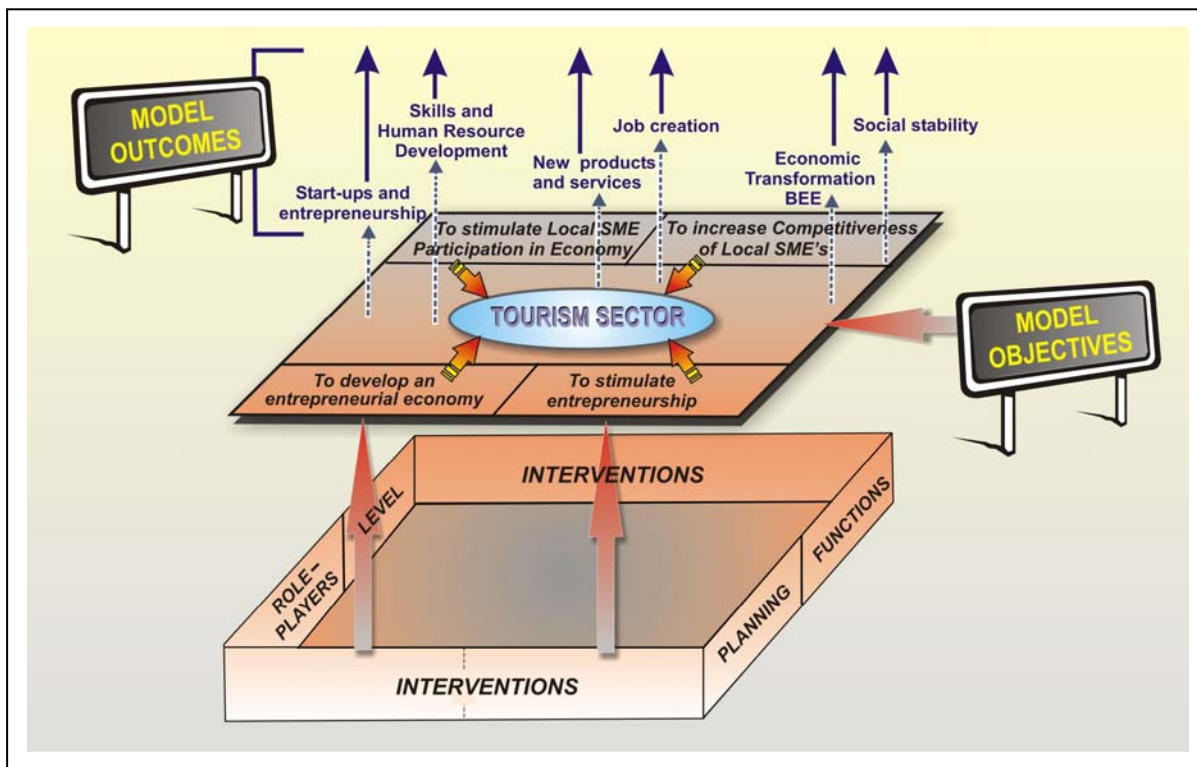


Figure 9.4: Framework components – objectives and outcomes

The interventions listed on the front left hand side of the model are identified as having an influence on the objective of developing an entrepreneurial economy, while those on the right hand side as having an influence on the objective to stimulate entrepreneurship. Likewise, the interventions on the left and right sides of the back of the box, are identified as having an influence on the objectives of

increasing competitiveness of local SME's and of stimulating local SME participation in the economy, respectively.

By combining these components the complete strategy is arrived at, as depicted in Figure 9.5.

In summary, the strategy is supported by general, regional-and industry-specific assumptions. The strategy involves the interventions of certain role players (Business and Labour, CSI, NGO's, the education sector, and government) at different levels (regional and local). These interventions influence the stated objectives, which, when aimed at the tourism industry, give rise to the desired outcomes.

9.4 MEASUREMENT AND TESTING

It was established in Chapter three that this study would make use of the “goal approach” and specifically the number of jobs created as a measure of the success of the developed strategy. In line with this approach, and in an effort to make the framework or model conform to the characteristic of being strategic in nature, a loop has been incorporated which allows for the results of the interventions to be assessed and, if not up to pre-determined standards, to change at any level the intervention strategies of the model.

The identification of possible intervention actions required to stimulate any of the four identified objectives of the model (Section 9.3.2), could be subjected to criticism based on any of the following arguments:

- Different government spheres have differing competencies provided for by legislation, for example, the Municipal Structures Act, 1998 (Act No. 117 of 1998) and the Municipal Systems Act, 2000 (Act No. 32 of 2000). Not all identified interventions can thus be implemented within all municipal areas. This holds true within the borders of South Africa and outside the borders of South Africa.

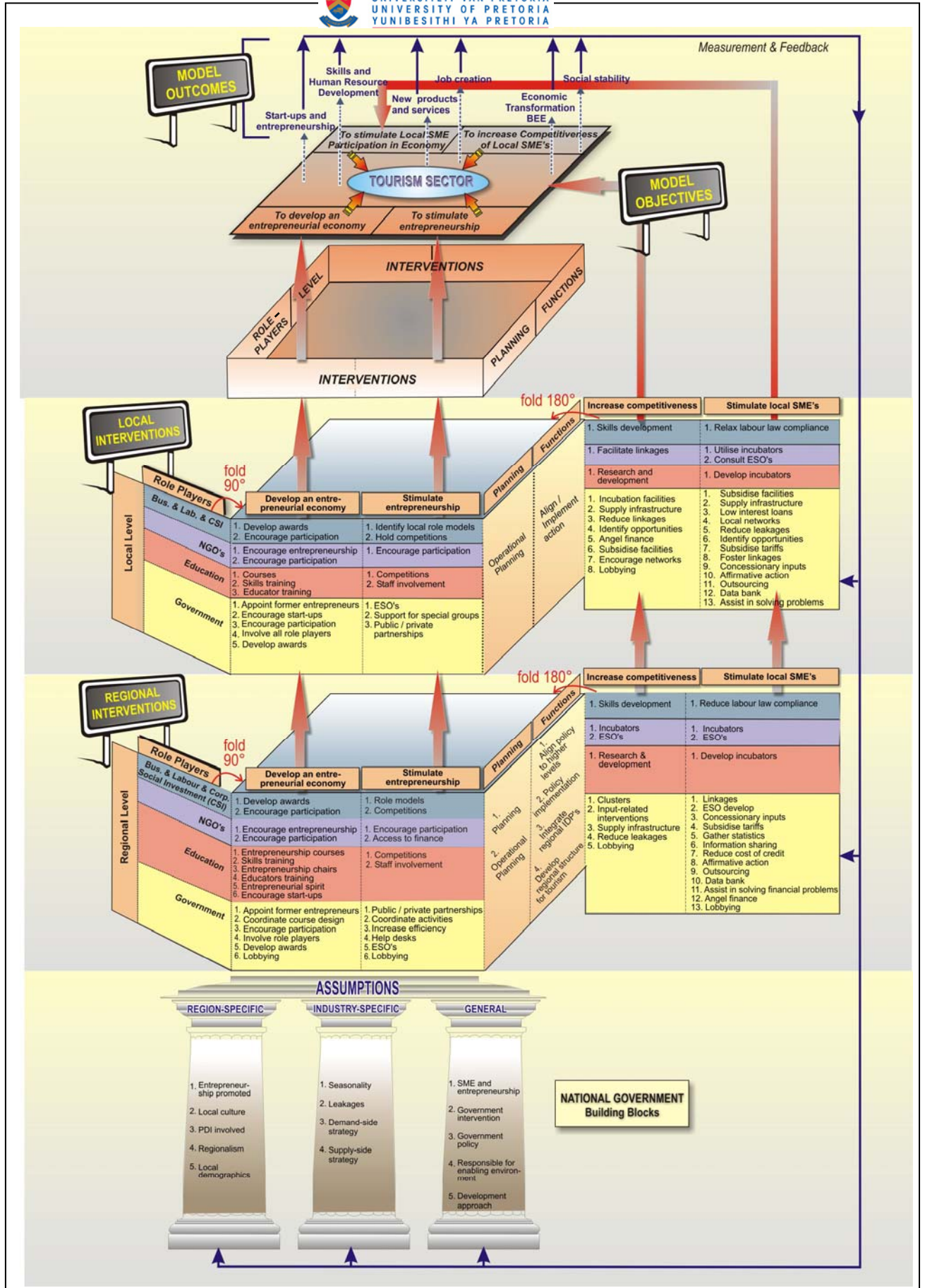


Figure 9.5: A framework depicting a strategy for the development of SME's operating in the tourism sector of the Southern Cape

- Municipal areas across South Africa have access to different resources which might preclude the use of certain interventions.
- Capacity constraints could also play a negative role in achieving the required objectives of the model.
- Certain municipal areas do not have the necessary support environment (the presence of education establishments, NGO's, Business and Labour organisations) needed to form a public/private partnership to jointly implement the development strategies required.

In an effort to ensure compatibility with, and applicability to, the environment of the Southern Cape area, three personal interviews²² were conducted in which interviewees were asked to identify those interventions for which, according to current legislation, local or regional government did not have the necessary authority to carry out.

Since all identified interventions are regarded as necessary to achieve the model's objectives it is important that none of them are discarded. Instead, it is recommended that the interventions for which a specific area does not have the authority or capacity to implement, be lobbied for. These interventions are indicated in the model as being actions that have to be lobbied for.

9.5 LIMITATIONS AND RECOMMENDED FUTURE RESEARCH

The framework has the following limitations that should be considered when applied to an area or destination.

9.5.1 Testing

The framework / model is based on theoretical fact as well as on perceptions of practising entrepreneurs in the tourism industry. The success of any model is determined by testing in the field. A shortcoming of this model is the fact that, due mainly to time constraints, it has not been field tested.

²² Prof. E Van Biljon (NMMU), Prof. F Hanekom (UNISA), and Mr M Hooghbaard (LED officer of the Eden District Municipality).

It is recommended that this model be field tested for both practicality as well as applicability.

9.5.2 Scope of applicability

One of the foundations on which this framework is built is regional-specific assumptions. It is therefore only applicable to the region known as the Southern Cape. A possible area of further study could be the testing of its applicability to other regions by substituting the new region's specific demographics.

9.5.3 Legislative constraints

In order to implement this model, certain organisational structures in local and regional government might be required. Due to legislative constraints it may be impractical to establish the necessary structure required to achieve the model's objectives. Furthermore, in order to implement the required interventions, certain competencies may be necessary but, because of current legislation, not be permitted to the applicable sphere or level of government.

9.5.4 Population and sampling

This study has only considered small, medium and micro enterprises which form part of the mainstream of economic activity. Those micro industries that were not registered with SARS or the Eden District Municipality (often referred to as the informal sector) were not considered. However, in light of the fact that it is estimated by many researchers that this informal sector is responsible for creating most of the new jobs, it is recommended that further research be conducted to determine the needs of those entrepreneurs who are active in the informal sector.

This study was hindered by the fact that the accuracy of its database was put in jeopardy as a result of the practice by the Eden District Municipality of keeping records for a period of five years after cessation of business activities. This resulted in the population of the database being overstated by an estimated 20%.

This resulted in a decrease in the validity of the data obtained from the empirical study.

9.5.5 Forms of job creation

It has been established that tourism brings about jobs that can be categorised as direct, indirect or induced job opportunities. Because of the size and fragmentation of the tourism industry, this study only considered those SME's in which direct job opportunities were created.

Further research could include, or be specifically directed towards the measurement of indirect job creation.

9.6 RECOMMENDATIONS

The importance of planning for the development of SME's and entrepreneurship in the tourism industry should be acknowledged by local authorities, and this function should not be confined to that of marketing and promotion of the destination or region. Nor should it be confined to national and provincial spheres of government, but rather be decentralised in order to overcome the current practice by all government levels / spheres of just repeating policy objectives and not actually planning for their particular region or area. It is recommended that the closer the sphere of government gets to the particular region, the more it should become involved in the operational component of planning.

As a first step, it is recommended that the EDM establish a structure within the EDM and local level-B municipalities to devise strategy and make plans. This structure should be established in conjunction with the private sector and PDI, and could comprise one or more of the structures identified in Annexure 4 through 8.

9.7 SUMMARY AND CONCLUSIONS

The aim of this study was to find a practical solution to the developmental requirements of tourism-related SME's operating in the Southern Cape region with

a view to stimulate job creation. The objectives of the study were set out in Table 1 in Section 1.3.

In determining the role of small businesses in the tourism industry and establishing the importance and requirements of tourism-related development planning, this study has revealed that tourism-related SME's have many benefits and can play an important part in local economic development if properly planned for, preferably at the local and regional levels of government. The success of this strategic planning exercise can be measured by the number of additional job opportunities that are created. Indeed, the creation of new jobs could be the main objective of such a planning exercise.

In establishing whether SME's have a future under conditions of globalisation, the study has also shown that, despite the negative influences on small businesses by the phenomenon of globalisation, there still exists a positive future for those SME's which follow international best practices.

Attempting to define the role of government in the tourism sector, the study highlighted the role played by government in the Southern Cape within the tourism industry. It was found that the study area was not sufficiently organised to plan for the successful development of SME's within the region. This was confirmed by an empirical study that indicated overwhelming evidence in favour of more involvement by regional and local government in the development of the tourism industry.

The study also placed in perspective the concepts of entrepreneurship development and SME development and presented an evaluation of different entrepreneurship models pertaining to South Africa.

This section of the study was followed by an empirical study in order to:

- establish the relationship between job creation and increasing tourism visitors to the Southern Cape region;
- determine whether central government's industry incentives were contributing to local job creation;

- establish what special requirements were necessary to stimulate local job creation; and
- determine what local and regional government could do to stimulate job creation and entrepreneurship in the Southern Cape region.

The results of the empirical study established a direct job multiplier of 1,7 for the region under consideration. It was also found that incentives from central government were not reaching the businesspeople that needed them in the Southern Cape region. The results showed the importance of activities which could be implemented by local and regional government and highlighted those interventions which entrepreneurs wanted to be performed locally.

Finally, the study combined the findings from the empirical study with those emanating from the literature study, and developed a strategy for the development of small businesses in the tourism sector of the Southern Cape region. This strategy was depicted in a framework model shown in Figure 9.4.

The findings of this study will contribute greatly towards the development of tourism-related SME's operating in the Southern Cape region.

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Annexure 1 QUESTIONNAIRE COVER LETTER



28 February 2005

<p>A SURVEY TO DETERMINE THE JOB CREATION POTENTIAL OF SMALL TO MEDIUM SIZED TOURISM RELATED ENTERPRISES</p>	<p>OPNAME OM DIE POTENSIAAL TE BEPAAL VAN KLEIN TOT MEDIUM GROOTTE TOERISME VERWANTE ONDERNEMIGS OM WERKSKEPPINGSGELEENTHEDE TE SKEP</p>
<p>The Department of Tourism Management at the University of Pretoria is currently conducting a study with the following objectives:</p> <ul style="list-style-type: none"> • <u>To</u> determine the relationship between job creation in tourism related SMME's and increasing tourism numbers visiting the region. • <u>To</u> determine if national government's incentives to the tourism industry are contributing to job creation in small, medium and micro tourism enterprises. • <u>To</u> determine those factors deemed by small businesses as critical to sustainable job creation in the tourism industry. <p>Your business has been selected on a random basis to take part in this very important survey and, as a respected business man / woman of the Southern Cape, your valuable contribution will be greatly appreciated.</p> <p>A questionnaire is enclosed. You are requested to study this questionnaire prior to receiving a telephone call from one of our research assistants who will complete the document with yourself. The whole exercise should only take up about twenty minutes of your time. You will be contacted within a period of two weeks after receiving this letter.</p> <p>Thank you for your assistance.</p>	<p>Die Departement Toerismebestuur by die Universiteit van Pretoria is tans bemoeid met 'n navorsingstudie wat die volgende doelwitte het:</p> <ul style="list-style-type: none"> • <u>Om</u> die verhouding tussen werkskepping in toerisme-verwante, klein tot medium, sake-ondernemings en die stygende getal besoekers wat die streek besoek te bepaal. • <u>Om</u> te bepaal of staatsaansporingsmaatreels aan die toerismebedryf enige bydrae in die streek maak tot werkskepping in hierdie ondernemings, en, • <u>Om</u> vas te stel watter faktore kleinsake belangrik ag vir die volhoubare skepping van werksgeleentehede in die toerisme bedryf. <p>U onderneming is op 'n eweredige basis gekies om deel te neem aan hierdie baie belangrike studie, en u mening as 'n gerekspekteerde sakeman / vrou sal hoog op prys gestel word.</p> <p>'n Vraelys word hiermee ingesluit en u word vriendelik versoek om dit deur te lees voordat u deur 'n lid van ons navorsingspan gekontak sal word om dit telefonies te voltooi. Die oefening behoort nie langer as twintig minute van u tyd in beslag te neem nie. U sal binne twee weke vanaf die datum van hierdie skrywer gekontak word.</p> <p>Dankie vir u deelname.</p>

RESEARCHER / NAVORSER: David Rutherford – dave.rutherford@nmmu.ac.za
Tel No: 044 – 871232 Fax No: 044 – 8742820

PROJECT LEADER / PROJEKLEIER: Prof Deon Wilson – dwilson@orion.up.ac.za

Annexure 2
RESEARCH QUESTIONNAIRE

BUSINESS SURVEY / BESIGHEIDSOPNAME

**A SURVEY TO DETERMINE THE JOB CREATION POTENTIAL OF SMALL TO MEDIUM
SIZED TOURISM RELATED ENTERPRISES**
**OPNAME OM DIE POTENSIAAL TE BEPAAL VAN KLEIN TOT MEDIUM GROOTTE TOERISME
VERWANTE ONDERNEMINGS OM WERKSKEPPINGSGELEENTHEDE TE SKEP**

Section A: General information / Algemene inligting.

1. Name of your enterprise / *naam van jou onderneming*.....
.....

2. Position of the person completing the questionnaire / *Posisie beklee deur persoon wat hierdie opname voltooi*.....

3. What is your type of enterprise ownership? / *Wat is die ondernemingsvorm van u onderneming?*

Make a cross / maak 'n kruis

Sole proprietor / <i>eenmansaak</i>	1
Partnership / <i>vennootskap</i>	2
Close corporation / <i>beslotekorporasie</i>	3
Company / <i>maatskappy</i>	4

4. Is the owner(s) engaged full or part-time in the running of the business? / *Is die eienaar (s) voltyds betrokke by die bestuur van die onderneming?*

Mark one / merk een

Full / <i>voltyds</i>	1
Part / <i>deeltyds</i>	2

5. Did you have any business experience before you started this business? / *Het u enige sake ondervinding gehad voordat u met hierdie onderneming begin het?*

Mark one / merk een

Yes / <i>Ja</i>	1
No / <i>Nee</i>	2



6. How big is your business in terms of annual turnover? / *In terme van omset, hoe groot is u onderneming?*

Make a cross / maak 'n kruis

Less than / <i>minder as</i> R150 000 per year	1
Between / <i>tussen</i> R150 000 and R25m	2
Between / <i>tussen</i> R25m and R50m	3

7. What is the size of your business in terms of employees? / *Hoe groot is u onderneming in terme van werknemers?*

Make a cross / maak 'n kruis

Less than / <i>minder as</i> 5 employees / <i>werkers</i>	1
Between / <i>tussen</i> 5 and 50 employees / <i>werkers</i>	2
Between / <i>tussen</i> 50 and 200 employees / <i>werkers</i>	3

8. What is the contribution of tourism to your total turnover? / *Wat is die bydrae van toerisme tot u totale omset?*

Make a cross / maak 'n kruis

0 – 15%	1
15 – 25%	2
25 – 50%	3
50 – 75%	4
75 – 100%	5

9. For how long has your business been in existence? / *Hoe lank bestaan u onderneming?*

Make a cross / maak 'n kruis

Older than / <i>ouer as</i> 10 years / <i>jr.</i>	1
5 – 10 years / <i>jaar</i>	2
3 – 5 years / <i>jaar</i>	3
1 – 3 years / <i>jaar</i>	4

10. Is your business independent or part of a group? / *Is u onderneming onafhanklik of vorm dit deel van 'n groep?*

Mark one / merk een

Independent / <i>onafhanklik</i>	1
Group / <i>groep</i>	2

11. What description best describes your business activity? / *Wat is die beste beskrywing van u ondernemingsaktiwiteit?*

Make a cross / maak 'n kruis

Accommodation / <i>verblyf</i>	1
Transport / <i>vervoer</i>	2
Hospitality / <i>gasvryheid</i>	3
Tour guide / <i>toergids</i>	4
Travel agent / <i>reisagent</i>	5
Tour operator / <i>toeroperateur</i>	6
Service provider / <i>diensverskaffer</i>	7
Other / <i>ander</i>	8

12. How was your business originally financed? / *Hoe is u onderneming oorspronklik befonds?*

Make a cross / maak 'n kruis

Own contribution / <i>eie bydrae</i>	1
Bank loan / <i>bank lening</i>	2
Government incentive / <i>staatsaansporing</i>	3
Loan from friend/family / <i>familielening</i>	4
Other / <i>ander</i>	5

Section B: Job creation / Werkskepping

13. Do you expect any growth in your business in the next year? / *Verwag u enige groei in u onderneming gedurende die volgende jaar?*

Mark one / merk een

Yes / <i>Ja</i>	1
No / <i>Nee</i>	2

13.1 If yes, why? / *Indien ja, hoekom?*.....

13.2 If no, why? / *Indien nee, hoekom?*.....

14. How many workers are currently employed in your business? / *Hoeveel werkers het u tans in diens?*

Time	Full-time Voltyds	Part-time Deeltyds
Currently / <i>huidig 2005</i>		

15. How many workers were employed in your business last year? / *Hoeveel werkers het u verlede jaar in diens gehad?*

Time	Full-time Voltyds	Part-time Deeltyds
2004		

16. How many workers were employed in your business during the year before last? / *Hoeveel werkers was by u in diens voorverlede jaar?*

Time	Full-time Voltyds	Part-time Deeltyds
2003		

17. How many workers will you employ in your business next year? (please give an estimate) / *Hoeveel werkers beplan u om in diens te neem volgende jaar (gee 'n benaderde syfer).*

Time	Full-time Voltyds	Part-time Deeltyds
2006		

18. Do you experience any problems in obtaining qualified staff? / *Ondervind u probleme om opgeleide personeel te bekom?*

Mark one / merk een

Yes / Ja	1
No / Nee	2

Section C: Government incentives / Staatsaansporingskemas.

19. Are you aware of government incentives that are available to your industry? / *Is u van enige staatsaansporingskemas vir u bedryf bewus?*

Mark one / merk een

Yes / Ja	1
No / Nee	2

20. If yes, what was the source of this knowledge? / *Indien ja, wat is die bron van hiedie kennis?*

Make a cross / maak 'n kruis

Auditors / Auditeur	1
Banks / Bank	2
Financial advisor / Finansieleraadgewer	3
Press / Pers	4
Other / Ander	5

21. Has your business ever made use of government incentives / subsidies? / *Het u onderneming al ooit gebruik gemaak van 'n staatsaansporing / subsidie?*

Mark one / merk een

Yes / Ja	1
No / Nee	2

22. If yes, what incentives or subsidies were made use of? / *Indien ja, watter aansporings of subsidie is gebruik?*

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Section D: Business growth factors / Ondernemingsgroefaktore.

23. In your opinion, are tourism developers making use of locally produced products / inputs? / *Volgens u mening, maak toerismeontwikkelaars gebruik van plaaslik vervaardigde produkte / insette?*

Mark one / merk een

Yes / <i>Ja</i>	1
No / <i>Nee</i>	2

24. To what extent does your business get help or referral business from large tourism enterprises? / *Tot hoe 'n mate ontvang u onderneming ondersteuning of verwysings van groot toerisme ondernemings?*

Make a cross / maak 'n kruis

Always / <i>Altyd</i>	1
Nearly always / <i>Amper altyd</i>	2
Sometimes / <i>Soms</i>	3
Seldom / <i>Selde</i>	4
Never / <i>Nooit</i>	5

25. Do you think that local government should play a more active role in developing tourism related small businesses? / *Is u van mening dat plaaslike regering meer betrokke moet wees by die ontwikkeling van toerisme verwante kleinsake?*

Mark one / merk een

Yes / <i>Ja</i>	1
No / <i>Nee</i>	2

26. How important is each of the following factors to ensure growth of your enterprise. / *Hoe belangrik is elk van die volgende faktore om die groei van u onderneming te verseker?*

Mark each factor with a cross / maak 'n kruis by elke faktor

Factors <i>Faktore</i>	Extremely Important <i>Uiters belangrik</i>	Very Important <i>Baie belangrik</i>	Reasonably Important <i>Weselik belangrik</i>	Some Importance <i>Minder belangrik</i>	Not Important <i>Nie belangrik</i>
Access to cheap finance. <i>Toegang tot goedkoop finansiering.</i>	1	2	3	4	5
Networking support from major players. <i>Netwerkondersteuning van hoofspelers.</i>	1	2	3	4	5
Tax breaks. <i>Belastingtoegewings.</i>	1	2	3	4	5

Question 26 continues



Factors Faktore	Extremely Important Uiters belangrik	Very Important Baie belangrik	Reasonably Important Wesenlik belangrik	Some Importance Minder belangrik	Not Important Nie belangrik
Identification by local government of opportunities. <i>Geleentheid-identifiseering deur plaaslike regering.</i>	1	2	3	4	5
Management training. <i>Bestuursopleiding.</i>	1	2	3	4	5
Employee training. <i>Werkersopleiding.</i>	1	2	3	4	5
Cooperation with other tourism businesses. <i>Samewerking met ander toerisme- ondernemings.</i>	1	2	3	4	5
Joint marketing strategies. <i>Gesamenlike bemarkingstrategie.</i>	1	2	3	4	5

27. Consider the following small to medium business developmental factors. What sphere of government should take responsibility for each of these factors (The respondent may choose more than one area of responsibility for each factor).

Bestudeer die volgende klein tot medium onderneming-ontwikkelingsfaktore. Watter vlak van regering behoort verantwoordelikheid te aanvaar vir elk van hierdie faktore? (Die respondent mag meer as een area van verantwoordelikheid vir elke faktor kies)

Make a cross (es) / maak 'n kruis (e)

Factor Faktore	Local Municipality Plaaslike Munisipaliteit	District Municipality Distriks- Munisipaliteit	Provincial Government Proninsiale Regering	National Government Nasionale Regering	Own Responsibility Eie Verantwoordelikheid
Develop tourism policy. <i>Ontwikkel toerismebeleid</i>	1	2	3	4	5
Provide tourism incentives to small businesses. <i>Voorsien kleinsake met toerisme-aansporings.</i>	1	2	3	4	5
Plan for tourism as an industry. <i>Beplanning van die toerisme-industrie.</i>	1	2	3	4	5
Provide tourism related statistics. <i>Verskaf toerisme-verwante statistiek.</i>	1	2	3	4	5
Identify opportunities for tourism related small businesses. <i>Identifiseer geleenthede vir toerisme- verwante kleinsake.</i>	1	2	3	4	5
Organise management and employee training. <i>Organiseer bestuurs en werkeropleiding.</i>	1	2	3	4	5



Factor Faktore	Local Municipality Plaaslike Munisipaliteit	District Municipality Distriks- Munisipaliteit	Provincial Government Proninsiale Regering	National Government Nasionale Regering	Own Responsibility Eie Verantwoordlikheid
Developing a joint tourism business vision. <i>Ontwikkel gesamentlike toerisme sakebeleid.</i>	1	2	3	4	5
Set up Networks and Linkages with larger enterprises. <i>Daarstelling van netwerke en koppelings met groter ondernemings.</i>	1	2	3	4	5
Provide a small business help desk. <i>Verskaf kleinsake-hulpfasiliteite.</i>	1	2	3	4	5

Please feel free to provide any further comments and /or suggestions regarding this study /
Voel vry om enige kommentaar en/of voorstelle aangaande hierdie studie te maak.

.....

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**THANK YOU
FOR TAKING THE TIME TO COMPLETE THIS SURVEY.
YOUR INPUT IS MUCH APPRECIATED.**

***DANKIE VIR U DEELNAME.
U INSETTE WORD HOOG OP PRYS GESTEL.***

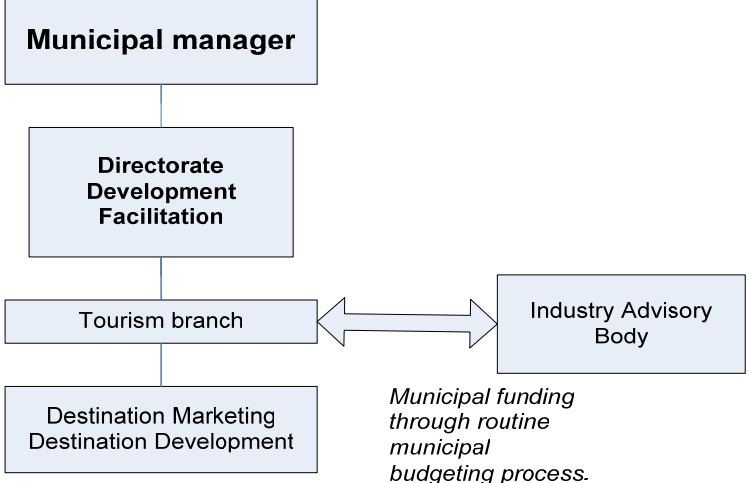


Annexure 3

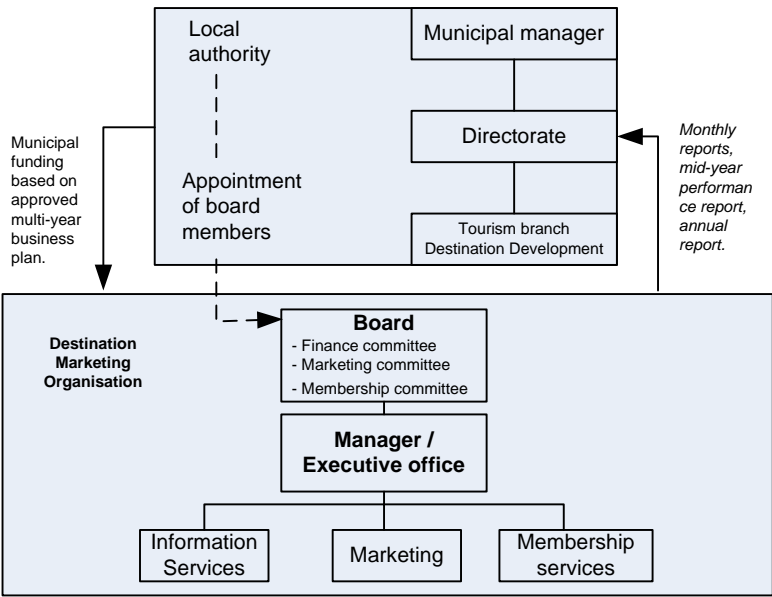
SUPPORT FOR THE SOUTH AFRICAN TOURISM SECTOR

Organisation	Abbreviation	Description	Main Focus
Tourism Enterprise Programme	TEP	An initiative of the Business Trust and managed by Ebony Consulting.	Growth and expansion of large operators, investors and SMME's in the tourism sector.
Department of Trade and Industry. Small & Medium Enterprise Development Programme.	DTI SMEDP	Cash grants to tourism related projects which can show expansion of least 25% within the first year (tax free for two years). Additional 3 rd year grant based on human resource remuneration.	Accommodation, tour operators, and tourism related businesses such as private railways, cableways, and transportation vehicles on water.
Development Bank of South Africa.	DBSA	Provides support in exceptional circumstances to tourism related projects such as, attractions, services and facilities, transport, and enabling structure.	SMME support is not a core function.
Industrial Development Corporation.	IDC	Loans to businesses operating in the tourism industry such as accommodation, development in conservation, renovations, expansions, furniture, fittings and equipment.	Capital intensive businesses requiring loans greater than R1 million.
Khula Finance.	Khula	Provides guarantees to banks to act as collateral for up to 80% of bank loan. (max R1 million).	SMME's who want to borrow between R50 000 and R1 million and who are involved in the day to day running of the business.
Business Partners.		Business Partners is a viability-based investment group allocating 10% of its budget to travel and tourism related business.	Allocation targets entrepreneurial activities in guest houses, hotels, caravan-parks, restaurants, and local tour operators.
Western Cape Department of Economic Development and Tourism.		Provincial Department. Support non-monetary. Support takes the form of training, infrastructure directly linked to tourism sites, conferences, development of tourist routes, exhibitions to expose SMME's to the market, signage, feasibility studies and mentorship.	All SMME's.

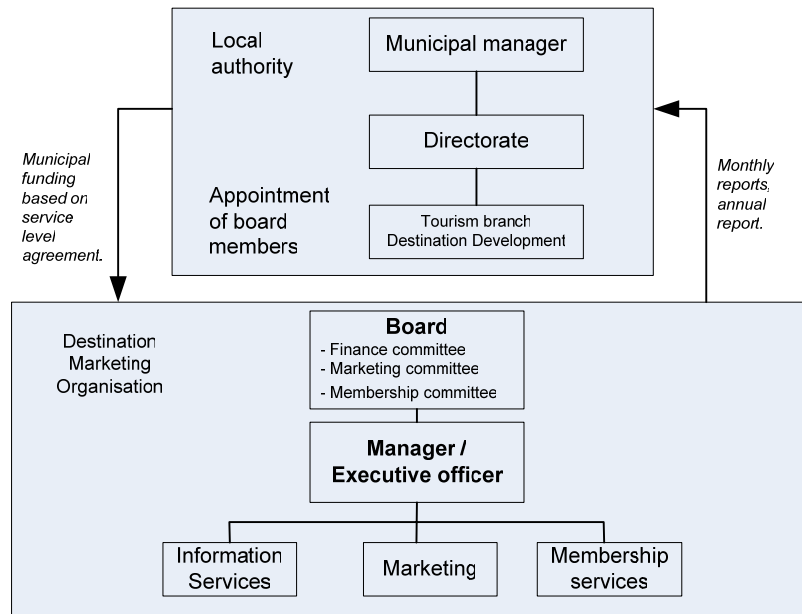
Annexure 4

MAINSTREAM GOVERNMENT MODEL – MUNICIPAL DEPARTMENT / DIVISION	
Characteristics	
<ul style="list-style-type: none"> * Establishment. Initiated by local authority No prescribed process. * Legal status. Part of local authority. * Funding. Substantially reliant on local government funding. * Managerial Independence. Subject to local authorities policies. * Governance. Government by local authority Accountable within local authority structure. 	<ul style="list-style-type: none"> * Reporting requirements. Subject to MFMA. Annual business plan. * Public disclosure. Budget and performance indicators disclosed as part of local government disclosure. * Compliance costs. Minimal compliance costs. * Taxation. No taxation implications.
<p>Mainstream government model</p>  <pre> graph TD MM[Municipal manager] --- DDF[Directorate Development Facilitation] DDF --- TB[Tourism branch] TB --- DMD[Destination Marketing Destination Development] TB <--> IAB[Industry Advisory Body] </pre> <p><i>Municipal funding through routine municipal budgeting process.</i></p>	
Possible advantages	Possible disadvantages
<ul style="list-style-type: none"> * Use of public funds subject to normal local authority procedures. * Minimal transaction costs as no contractual arrangements made. * Not subject to company tax. * Outcomes can be related to IDP. * Strong linkages between tourism and other council functions/activities. * High level of direct control over activities. 	<ul style="list-style-type: none"> * May not be perceived as a tourism-focused entity. * May not be effective in performing role if tourism is not seen as important. * Less flexible. * Stakeholders interaction may be ineffective. * Possibly less attractive to industry members. * Ability to attract appropriately qualified staff - perceived as public sector.

Annexure 5

DIFFERENTIATED MODEL – MUNICIPAL DEPARTMENT + EXTERNAL MECHANISM	
DIFFERENTIATED MODEL – MUNICIPAL DEPARTMENT + EXTERNAL MECHANISM	
<p><u>Differentiated model (with control)</u></p> 	
Possible advantages	Possible disadvantages
<ul style="list-style-type: none"> * Strong linkages between tourism and other council functions / activities. * High level of direct control over development activities. * Development objectives can be closely aligned to IDP. 	<ul style="list-style-type: none"> * Possible confusion regarding division of roles and responsibilities. * Duplication of infrastructure – more costly. * Complex liaison mechanisms between two legs required to ensure co-operation. * Possible misalignment between separate strategies. * Business involvement in development component may be limited. * Possibly less attractive to industry members. * May not be effective in creation of integrated transformed industry. * Not conducive to establishment of partnerships between established and merging industry. * Possible duplication of effort. * Duplicated governance mechanisms.

Differentiated model (without control)



Possible advantages	Possible disadvantages
<ul style="list-style-type: none"> * Strong linkages between tourism and other council functions / activities. * High level of direct control over development activities. * Development objectives can be closely aligned to IDP. 	<ul style="list-style-type: none"> * Possible confusion regarding division of roles and responsibilities. * Duplication of infrastructure – more costly. * Complex liaison mechanisms between two legs required to ensure co-operation. * Possible misalignment between separate strategies. * Business involvement in development component may be limited. * Possibly less attractive to industry members. * May not be effective in creation of integrated transformed industry. * Not conducive to establishment of partnerships between established and merging industry. * Possible duplication of effort. * Duplicated governance mechanisms.



Annexure 7

OUTSOURCED MODEL WITH CONTROL – MUNICIPAL ENTITY	
Characteristics	
<ul style="list-style-type: none"> * Establishment. Initiated by local authority Process prescribed. * Legal status. Independent entity with strong government linkages. * Funding. Reliance on local government funding; can source other revenues and membersupport. * Managerial Independence. Bureaucracy limited Subject to approved business plan. 	<ul style="list-style-type: none"> * Reporting requirements. Service level agreement Monthly, mid-year and annual report. * Public Disclosure. Disclosure substantially the same as local government disclosure. * Stakeholder Relationships. Can relate well. Stakeholders can nominate directors. * Compliance costs. Significant compliance costs. (separate audit) * Taxation. Subject to company taxation.
<p>Outsourced model – Municipal entity</p> <pre> graph TD LA[Local authority] -- "Municipal funding based on approved multi-year business plan." --> BO[Board appointments] BO -.-> LA BO --> MO[Manager / Executive officer] MO --> IS[Information Services] MO --> MS[Marketing Services] MO --> MMS[Membership Services] MO --> DS[Destination Services] LA -- "Monthly reports, mid-year performance report, annual report." --> BO </pre>	
Possible advantages	Possible disadvantages
<ul style="list-style-type: none"> * Independent legal status. * Ability to appoint skilled and experienced, independent directors. * Independent of local authority – more flexible. * Able to source alternative funding. * Funding from local authorities fixed on basis of contracted outputs. * Focused on its functions and delivery of contracted outputs. * Not subject to local authority procedures. * Able to develop good relationships with industry stakeholders. * More able to attract appropriately skilled staff. 	<ul style="list-style-type: none"> * Possible perceptions of loss of public control. Requires greater governance skill and effort from local authorities. * Accountability requirements more cumbersome than council department. * May not be seen as transparent in use of funding. * Linkage to IDP outcomes is indirect through a service delivery agreement. * Transaction costs greater than some other options (separate audit, business planning process). * Subject to taxation. * Municipal entity compliance and costs. * May require greater effort to ensure alignment of local authority's functions and activities with tourism.



Annexure 8

OUTSOURCED MODEL WITHOUT CONTROL – INDEPENDENT ORGANISATION			
Characteristics.			
<p>* Establishment. Initiated by members. No prescribed process.</p> <p>* Legal Status. Independent entity Subject to its constitution.</p> <p>* Funding. Reliance on local government funding.</p> <p>* Managerial Independence. Able to operate commercially without excessive bureaucracy</p> <p>* Governance. Governed by own board – service level agreement and other accountability requirements.</p>	<p>* Reporting requirements. Service level agreement, Monthly & annual report.</p> <p>* Public disclosure. No obligation to disclose. Effective disclosure through local government.</p> <p>* Relationship with stakeholders. Can relate well. Members appoint governing body. Local authority input may be limited.</p> <p>* Compliance costs. Significant compliance costs (separate audit).</p> <p>* Taxation. May be subject to company tax.</p>		
<p>Outsourced model – Independent organisation</p>			
Possible advantages		Possible disadvantages	
<ul style="list-style-type: none"> * Arms length contractual relationship with funding local authorities may suit some stakeholders. * Totally flexible in method of operating. * Likely to have a strong commercial structure. * Able to seek revenues from other commercial arrangements, including industry stakeholders. * May be more difficult to align objectives with those of municipality. * Potentially should be very efficient and effective, particularly if the service level agreement is performance based and contestable.* skilled staff . 		<ul style="list-style-type: none"> * No ownership by funding local authorities, hence limited ability to influence governance. * Perceptions of unnecessary profit to private sector from public funds. * Possible stakeholder conflict. * Possible duplication of effort and wasted resources. * Transaction costs could be high. * Some stakeholders could be isolated from providing input to direction and strategies. * Greater effort needed to ensure local TO's functions and activities are aligned with council objectives. 	

Annexure 9: Determination of Tourism Visitor Numbers

Source codes

S A Statistics	1. Various publications of monthly arrivals. (Workers and contract workers excluded)
Grant Thornton	1. Tourism Talk. 2002 Compared with 2001 and 2000. 2. Western Cape Trends card 2002. 3. Tourism Trends in the Western Cape and Garden Route - May 2001. 4. Western Cape Trends Card 2003 5. Western Cape Trends Card 2000
SA Tourism	1. Annual Tourism report 2003 by S A Tourism Strategic Research Unit, April 2004. 2. Annual Tourism report 2002 by S A Tourism Strategic Research Unit, April 2003. 3. Domestic Tourism Survey 2001 by HSRC for S A Tourism 4. Domestic Tourism Report 2003 by S A Tourism Strategic Research Unit
Wesgrow	1. Contrasting Domestic and International Tourism Market 1996 2. Western Cape Tourism Regions and routes - Fact Sheet - April 2005
Markinor	The South African Domestic Tourism Market - May 1995 - Prepared for SATOUR
Calculated	For references see Annexure 10

YEARLY SUMMARY OF INTERNATIONAL TOURISTS

Description	1994			1995			1996			1997			1998			1999		
	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden
Overseas	696303			1060766			1172394	627000		1273936			1427155			1478100	800000	
Africa	2972653			3427506			3772036	286000		3702413			4304881			4408249		
Sub-Total	3668956	0	0	4488272	0	0	4944430	913000	0	4976349	0	335000	5732036	769000	0	5886349	800000	373000

Source
Calculation
TOTAL

Ref 1. Ref 3 Ref 3 Ref 5 Ref 3

Grant Thornton
1999 figure
is 4% higher
than in 1998.

R9,7b

Direct Spend
DS Holiday
DS VFR
DS Business
DS Medical
DS Religious

YEARLY SUMMARY OF DOMESTIC TOURISTS

Description	1994			1995			1996			1997			1998			1999		
	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden
Domestic Toursm (overnight stays)	24168000	2498000					30400000	5892000	750000				39200000	4700000				
							Ref 3	Ref 1.	Ref 3				Ref 3	Ref 3				

Direct Spend (Rands)
DS Holiday
DS VFR
DS Business
DS Medical
DS Religious
Combined Business & Holiday
Excursion
Sport Event - participant
Sport event - spectator
Other

5,226m
5,219 m
0,643m
0,278 m
0,350 m
0,149 m
0,797 m

Grant Thornton
Western Research
Cape share
is 12%

Annexure 9: of Tourism Visitor Numbers (continued)



UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Source codes

S A Statistics	1. Various publications of monthly arrivals. (Workers and contract workers excluded)
Grant Thornton	1. Tourism Talk. 2002 Compared with 2001 and 2000 2. Western Cape Trends card 2002 3. Tourism Trends in the Western Cape and Garden Route - May 2001 4. Western Cape Trends Card 2003 5. Western Cape Trends Card 2000
SA Tourism	1. Annual Tourism report 2003 by S A Tourism Strategic Research Unit, April 2004 2. Annual Tourism report 2002 by S A Tourism Strategic Research Unit, April 2003 3. Domestic Tourism Survey 2001 by HSRC for S A Tourism 4. Domestic Tourism Report 2003 by S A Tourism Strategic Research Unit
Wesgrow	1. Contrasting Domestic and International Tourism Market 1996 2. Western Cape Tourism Regions and routes - Fact Sheet - April 2005
Markinor	The South African Domestic Tourism Market - May 1995 - Prepared for SATOUR
Calculated	For references see Annexure 10

YEARLY SUMMARY OF INTERNATIONAL TOURISTS

2000			2001			2002			2003			2004			Avg. % Growth per year		
SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden
1517779	770000		1498253			1803887	976000		1879110	1200000	228000	1906428	1061076		17.38	9.89	
4354475			4289117			4625696	396000		4625780	300000	57000	4817826	396904		6.21	5.54	
5872254	770000	386000	5787370	0	0	6429583	1372000	0	6504890	1528649	290443	6724254	1457980	432245	8.33	8.53	4.84
	Ref 5	Estimate					Ref. 2			Ref 1.	Ref 2		Ref 1	Ref 2			
		Ref 3					Overseas 53%			SA Tourism	Wesgrow						
							African air 21%			23.5% of total	19% of total						
							African land 8%			Ref 2							
	1% >1999					R48,8b	R9,9b		R53,9bil	R8,1bil							
						Ref 2.	Ref 2.		Ref 1.	Ref 1.							

YEARLY SUMMARY OF DOMESTIC TOURISTS

2000			2001			2002			2003			2004			Avg. % Growth per year		
SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden	SA	West Cape	Eden
32310000	4200000		34000000	4200000	793055				49300000	5200000	983388				11.55	12.02	4.45
Ref 5	Ref 5		Ref 3	Ref 3	Ref 1.				Ref 1.	Ref 1.							
			R 38.5bn	R2.71b			R2.96b		R47bn	R8,3b	Assuming						
			R6.9bn	R1.98b			Ref 2.		R21.0bn	R5.0b	Simmilar						
			R19.6bn	R0.52b					R17.5BN	R2.7b	growth as						
			R1.46bn	R0.11b	18.9% of w c visitors				R6.0bn	R0.5b	W Cape						
			R4.7bn	R0.04b					R0.6bn	R0.1b							
			R0.8bn	R0.06b					R1.9bn	R0.06b							
			Ref 3	Ref 3					Ref 1.	Ref 4.							

2003= 24%.2002

Annexure 10: Calculations of Visitor Numbers

Reference 1

YEARLY SUMMARY OF INTERNATIONAL TOURISTS 2004

SA - total

Quater1-3 4772117 South African Tourism index quaterly reports (Q1-3) - for the first 3 quarters
 Total **6724254** SA Stats - for the full year
 70.97%

Thus 71% of tourists that visited South Africa in 2004 came within the first 3 quarters

Western Cape total

Quater1-3 1035166 South African Tourism index quaterly reports (Q1-3) - for the first 3 quarters
 Total **1457980** Calculated - using the assumption that 71% of tourists visited within the first 3 quarters - see above

Western Cape - Africa and ME tourists

Quater1-3 281802 South African Tourism index quaterly reports (Q1-3) - for the first 3 quarters
 Total **396904** Calculated - using the assumption that 71% of tourists visited within the first 3 quarters - see above

Western Cape Overseas tourists

1061076 Western Cape total - Western Cape Africa and ME tourists

Reference 2

Eden total

Quater1-3 306894 South African Tourism index quaterly reports Western Cape (Q1-3) - for the first 3 quarters
 Total Knysna had the highest % tourists in Eden, only used 1 city to prevent dubble counting

	Q1	Q2	Q3	
W-Cape	447705	288653	298808	
% Knysna	36.70%	23.00%	25.50%	
Total	164308	66390	76196	306894

432245 Calculated - using the assumption that 71% of tourists visited within the first 3 quarters - see above

Annexure 11 INTERVENTION ACTIONS AT THE LOCAL LEVEL

Role players	Develop an entrepreneurial economy	Stimulate entrepreneurship	Stimulate local SMME participation in the economy	Increase local competitiveness of SMME's
Business Labour Corporate social investment (CSI)	1. Develop entrepreneurship awards 2. Encourage participation in entrepreneurship competitions.	1. Identify and promote local entrepreneurs as role models. 2. Hold competitions.	1. Relax labour law compliance for small businesses.	1. Encourage skills development among SMME's – especially during off-peak season.
NGO's	1. Develop entrepreneurship awards. 2. Encourage participation in entrepreneurship competitions.	1. Encourage participation in entrepreneurship competitions	1. Propagate the use of incubators and ESO's	1. Facilitate the establishment of linkages.
Education sector	1. Provide entrepreneurship content courses. 2. Provide skills development. 3. Train teachers/educators to teach entrepreneurship.	1. Hold competitions among students.	1. Develop incubation activity.	1. Conduct research and development.
Government	1. Appoint experienced entrepreneurs to positions within this sphere of government dealing with entrepreneurship. 2. Encourage start-ups by eliminating those factors seen as to be stumbling blocks to the creation of new enterprises. 3. Encourage participation by business and labour, CSI, NGO's and education institutions in the development of an entrepreneurial economy. 4. Involve role players and other organisations (churches, Civics, Trade unions, and business organisations) in promoting entrepreneurship. 5. Develop and stimulate entrepreneurship awards at all levels in the community.	1. Provide a help desk. 2. Provide local ESO's. 3. Provide special support for woman and PDI's. 4. Negotiate public/private partnerships.	1. Subsidise facilities 2. Supply necessary infrastructure 3. Provide low interest loans to key areas 4. Establish local networks 5. Provide incentives to reduce leakages 6. Identify local opportunities. 7. Subsidise tariffs on key inputs such as energy. 8. Foster linkages. 9. Provide land on concessionary terms. 10. Implement affirmative sub-contracting. 11. Encourage and implement outsourcing. 12. Follow an affirmative government procurement strategy. 13. Establish a data-bank of potential SMME suppliers. 14. Assist in overcoming cash flow problems of SMME's arising from their been awarded large contracts – credit guarantees to banks.	1. Develop incubation facilities. 2. Supply necessary infrastructure. 3. Reduce leakages. 4. Identify opportunities. 5. Encourage Angel Finance sources. 6. Subsidise facilities. 7. Lobby for the ability to provide financial assistance. 8. Encourage local networks. 9. Identify local opportunities. 10. Provide incentives to reduce leakages.

Annexure 12 INTERVENTION ACTIONS AT THE REGIONAL LEVEL

Role players	Develop an entrepreneurial economy	Stimulate entrepreneurship	Stimulate local SMME participation in the economy	Increase local competitiveness of SMME's
Business Labour Corporate social investment (CSI)	<ol style="list-style-type: none"> 1. Develop entrepreneurship awards 2. Encourage participation in entrepreneurship competitions 	<ol style="list-style-type: none"> 1. Identify and promote local entrepreneurs as role models. 2. Hold entrepreneurship competitions. 	<ol style="list-style-type: none"> 1. Relax labour law compliance by small businesses. 	<ol style="list-style-type: none"> 1. Encourage skills development among SMME's
NGO's	<ol style="list-style-type: none"> 1. Develop entrepreneurship awards 2. Encourage participation in entrepreneurship competitions 	<ol style="list-style-type: none"> 1. Encourage participation in entrepreneurship competitions. 2. Facilitate access to finance. 	<ol style="list-style-type: none"> 1. Encourage SMME owners to make use of incubators and ESO's. 	<ol style="list-style-type: none"> 1. Propagate the use of incubators and ESO's
Education sector	<ol style="list-style-type: none"> 1. Provide entrepreneurship content courses 2. Provide skills development. 3. Establish entrepreneurial chairs at universities. 4. Train teachers/educators to teach entrepreneurship. 5. Develop entrepreneurial spirit from low educational level upwards. 	<ol style="list-style-type: none"> 1. Hold entrepreneurship competitions among students. 2. Encourage staff to get involved with students in start-up ventures. 	<ol style="list-style-type: none"> 1. Develop incubator centres. 	<ol style="list-style-type: none"> 1. Conduct research and development
Government	<ol style="list-style-type: none"> 1. Appoint experienced entrepreneurs to positions within this sphere of government dealing with entrepreneurship. 2. Co-ordinate with tertiary institutions the supply of entrepreneurship courses and the inclusion of entrepreneurship in existing curriculum. 3. Encourage start-ups by eliminating those factors seen 	<ol style="list-style-type: none"> 1. Negotiate public/private partnerships 2. Co-ordinate all projects, interventions and activities via the IDP process 3. Adopt efficiency enhancing policies 4. Supply input related interventions such as (i) Supply business training for PDI's (ii) Provide counselling and consultancy. 	<ol style="list-style-type: none"> 1. Foster linkages. 2. Develop entrepreneurship support organisations (ESO's). 3. Provide land on concessionary terms. 4. Subsidise tariffs on key inputs such as energy. 5. Build up a statistics / information gathering unit. 6. Establish an information sharing system. 7. Facilitate the reduction of the cost of credit to entrepreneurs by shifting the 	<ol style="list-style-type: none"> 1. Form clusters. 2. Provide input related interventions such as (i) Supply business training (ii) Provide counselling (iii) Establish networks. 3. Supply necessary infrastructure. 4. Reduce leakages by providing incentives for firms to buy local. 5. Identify regional opportunities.

Role players	Develop an entrepreneurial economy	Stimulate entrepreneurship	Stimulate local SMME participation in the economy	Increase local competitiveness of SMME's
<p>Government <i>(continued)</i></p>	<p>as to be stumbling blocks to the creation of new enterprises.</p> <p>4. Encourage participation by business and labour, CSI, NGO's and education institutions in the development of an entrepreneurial economy.</p> <p>5. Involve role players and other organisations (churches, Civics, Trade unions, and business organisations) in promoting entrepreneurship.</p> <p>6. Develop and stimulate entrepreneurship awards at all levels in the community.</p> <p>7. Lobby for (i) the training of teachers and educators to teach entrepreneurship at all academic levels, (ii) the development of entrepreneurship curriculum and its integration into education.</p>	<p>(iii). Establish networks.</p> <p>5. Establish a help desk and supply information and provide entrepreneurship support (ESO).</p> <p>6. Lobby for (i) the regulation of entry and exit to the industry through licencing requirements. (ii) financial assistance through loans, grants and subsidies.</p>	<p>cost of credit to a credit guarantee system.</p> <p>8. Encourage non-bank lenders to participate in the local economy.</p> <p>9. Implement affirmative sub-contracting.</p> <p>10. Encourage and implement outsourcing.</p> <p>11. Follow an affirmative government procurement strategy.</p> <p>12. Establish a data-bank of potential SMME suppliers.</p> <p>13. Assist in overcoming cash flow problems of SMME's arising from their been awarded large contracts – credit guarantees to banks.</p> <p>14. Lobby for (i) financial assistance for woman entrepreneurs, (ii) tariff exemption on construction materials, (iii) spacial depreciation allowances, (iv) labour training subsidy as an incentive for eliminating the practice of utilising seasonal labour, (v) direct or indirect tax exemptions or reductions.</p> <p>15. Lobby for the ability to supply financial assistance.</p> <p>16. Lobby for the relaxation of labour law compliance by SMME's.</p> <p>17. Lobby for and encourage the establishment of a venture capital market.</p> <p>18. Encourage Angel Finance sources.</p>	



Annexure 13 ASSUMPTIONS ON WHICH THE STRATEGY IS BUILT

REGION-SPECIFIC ASSUMPTIONS	INDUSTRY-SPECIFIC ASSUMPTIONS	GENERAL ASSUMPTIONS
<ol style="list-style-type: none">1. The promotion of entrepreneurship is a mandatory function of local government2. The local culture toward entrepreneurship is considered3. The backlog of PDI involvement is addressed4. The concept of regionalism is followed5. Local demographics is taken into account	<ol style="list-style-type: none">1. Seasonality of the industry is taken into account2. The characteristic of leakages should be avoided3. Local government structure should facilitate both demand-side as well as supply-side strategies	<ol style="list-style-type: none">1. SME development is equated with entrepreneurship development2. The industry structure warrants government interventions3. The government has adopted the principles of SMME and entrepreneurship development as policy4. The government accepts responsibility of providing an enabling environment for SMME's to operate in (physical and social structures as well as rule of law)5. The development approach is economic in nature, supported by sustainability, community involvement and in line with IQM