

## Section 1

### *Chapter 3*

## THE ROLE OF SMALL BUSINESS IN THE TOURISM INDUSTRY

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### 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
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**(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**

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

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**

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

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 WTTO, 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	
<b>T &amp; T Economy:</b>					
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%	
<b>T&amp;T Industry:</b>					
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	
<b>T &amp; T Economy:</b>					
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%
<b>T&amp;T Industry:</b>					
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.<sup>9</sup>

<sup>9</sup> 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.<sup>10</sup>

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.

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<sup>10</sup> 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.<sup>11</sup>

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<sup>11</sup> 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

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## 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**

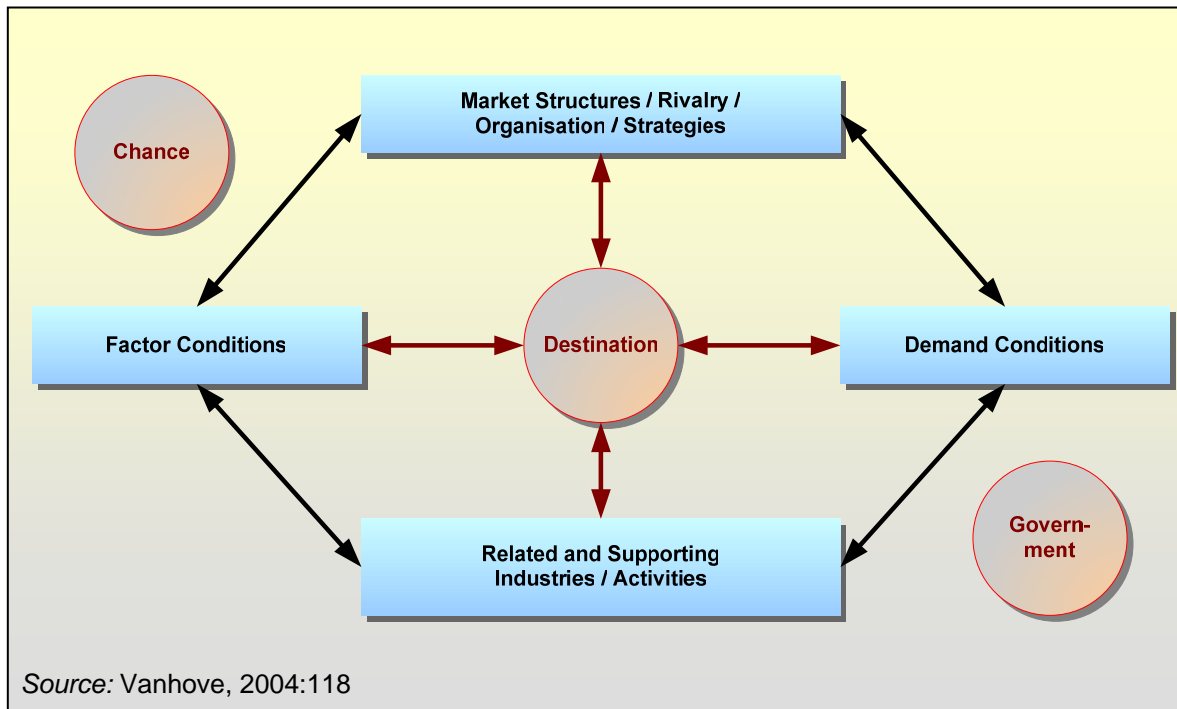
Although the “Diamond” model of National Competitive Advantage (Porter, 1990) was originally focused on manufacturing, Hopkins (2001:65) is of the opinion that it may also be applied to the predominantly service based industry of tourism.

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).

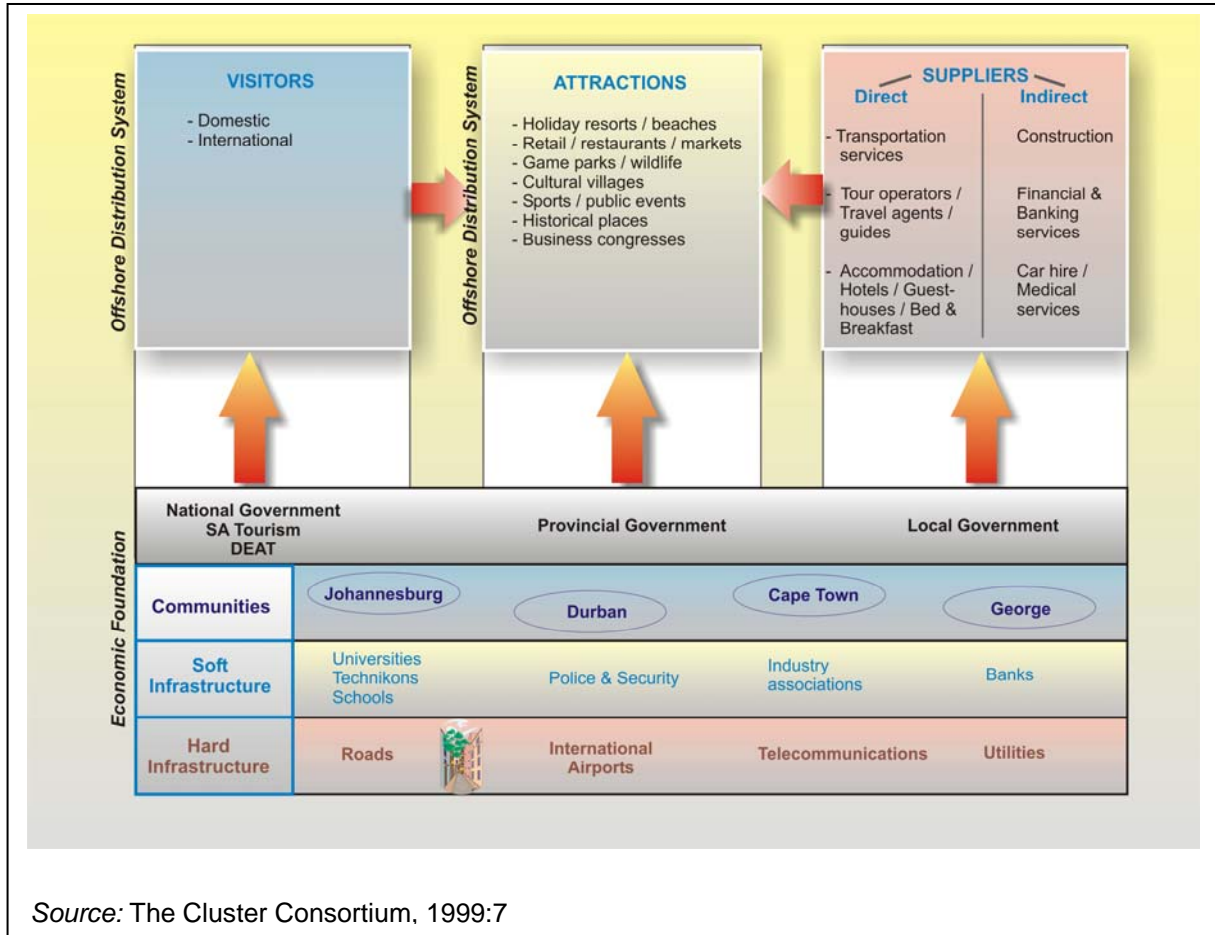
#### **4.3.3.7 The South African tourism cluster**

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**

<b>International best practice</b>	<b>Implication</b>	<b>Responsibility</b>
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**

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### **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.*

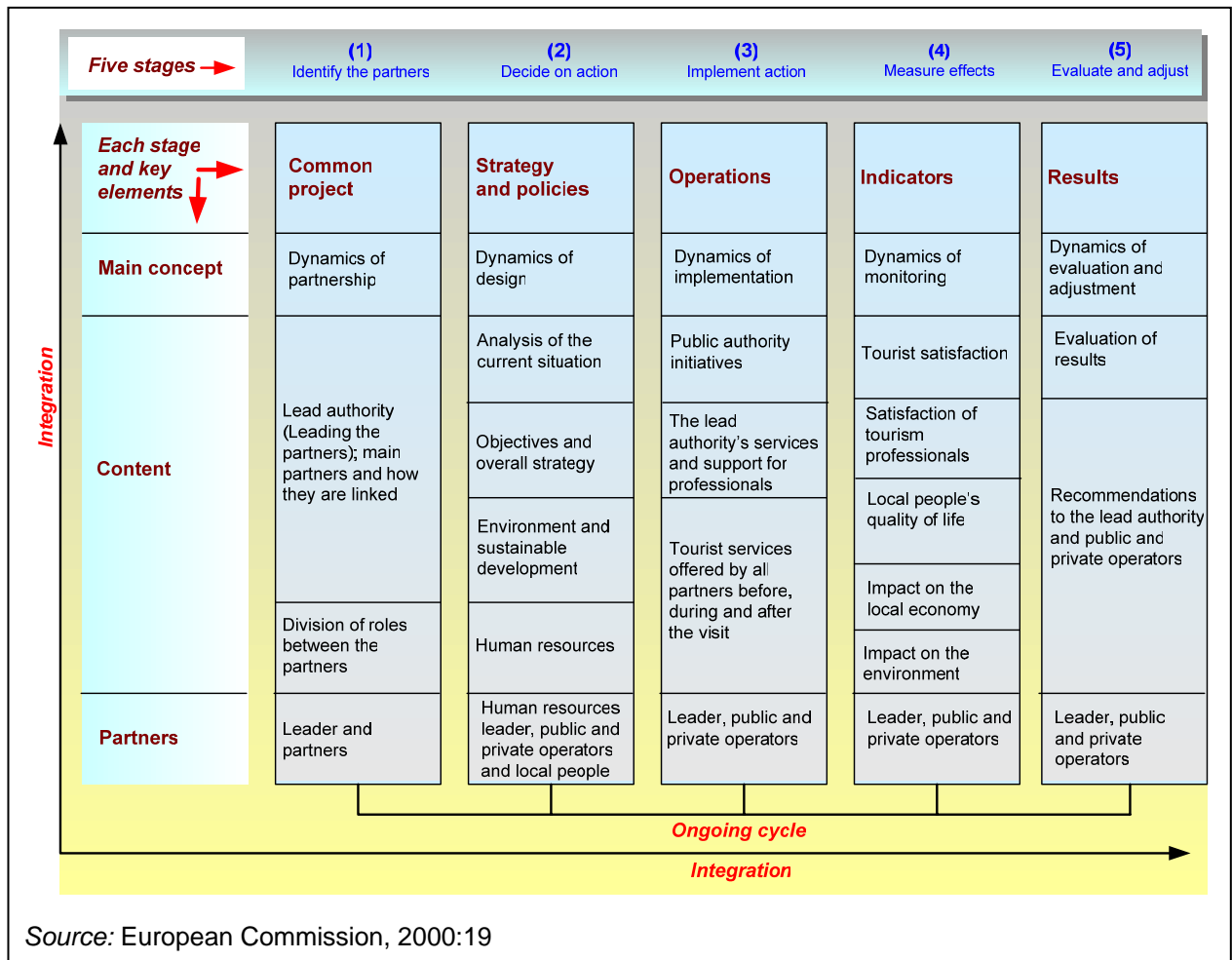
For a tourist destination, Integrated Quality Management (IQM) can be seen as a systematic quest for **internal quality** and **external quality**, i.e. economic improvement in the short-term and local development in the long term.

**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.

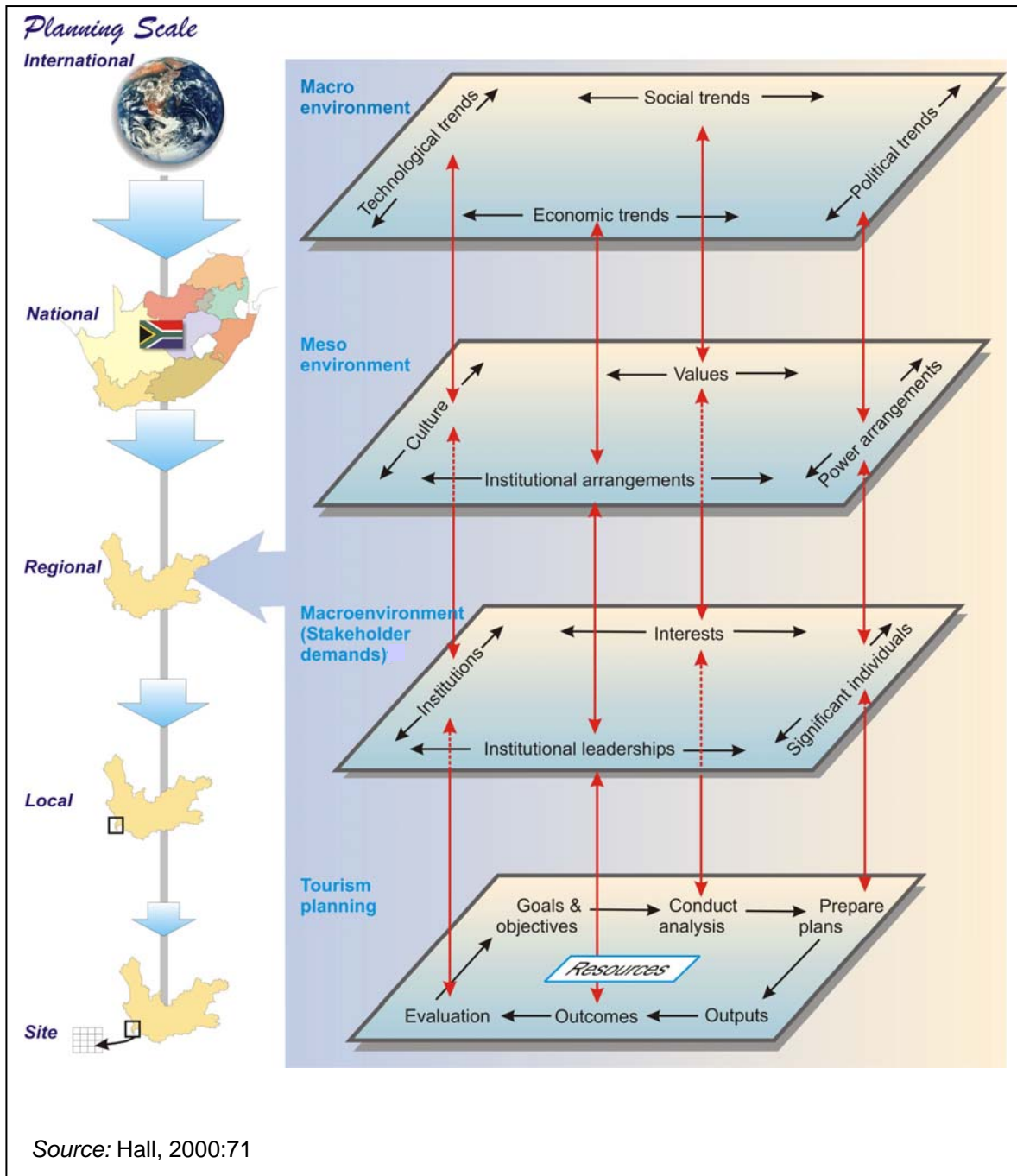
#### **5.4.1 Planning and policy at the international and supra-national levels**

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.

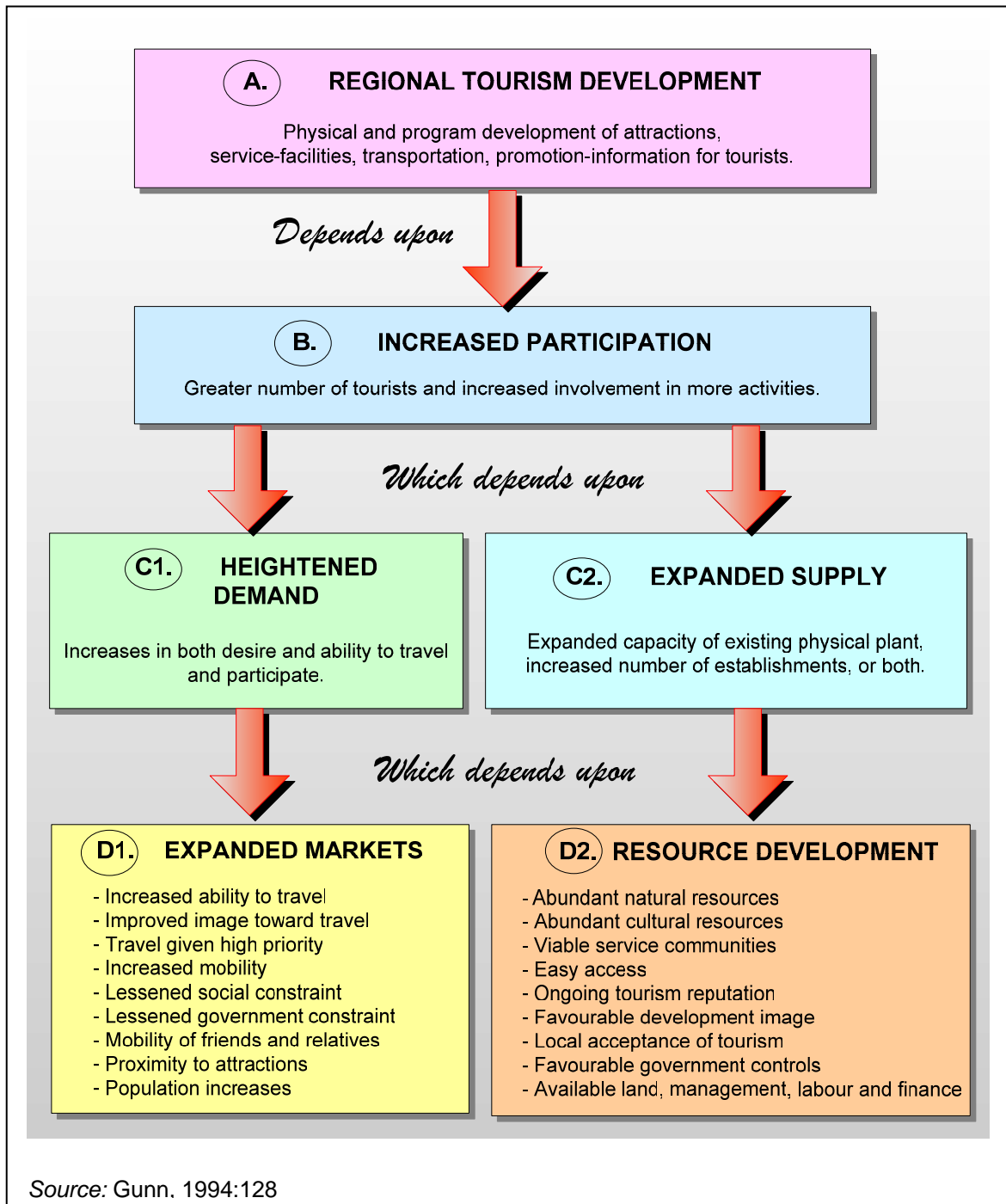
#### **5.4.2.2 A planning model**

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 21<sup>st</sup> 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 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

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## 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.

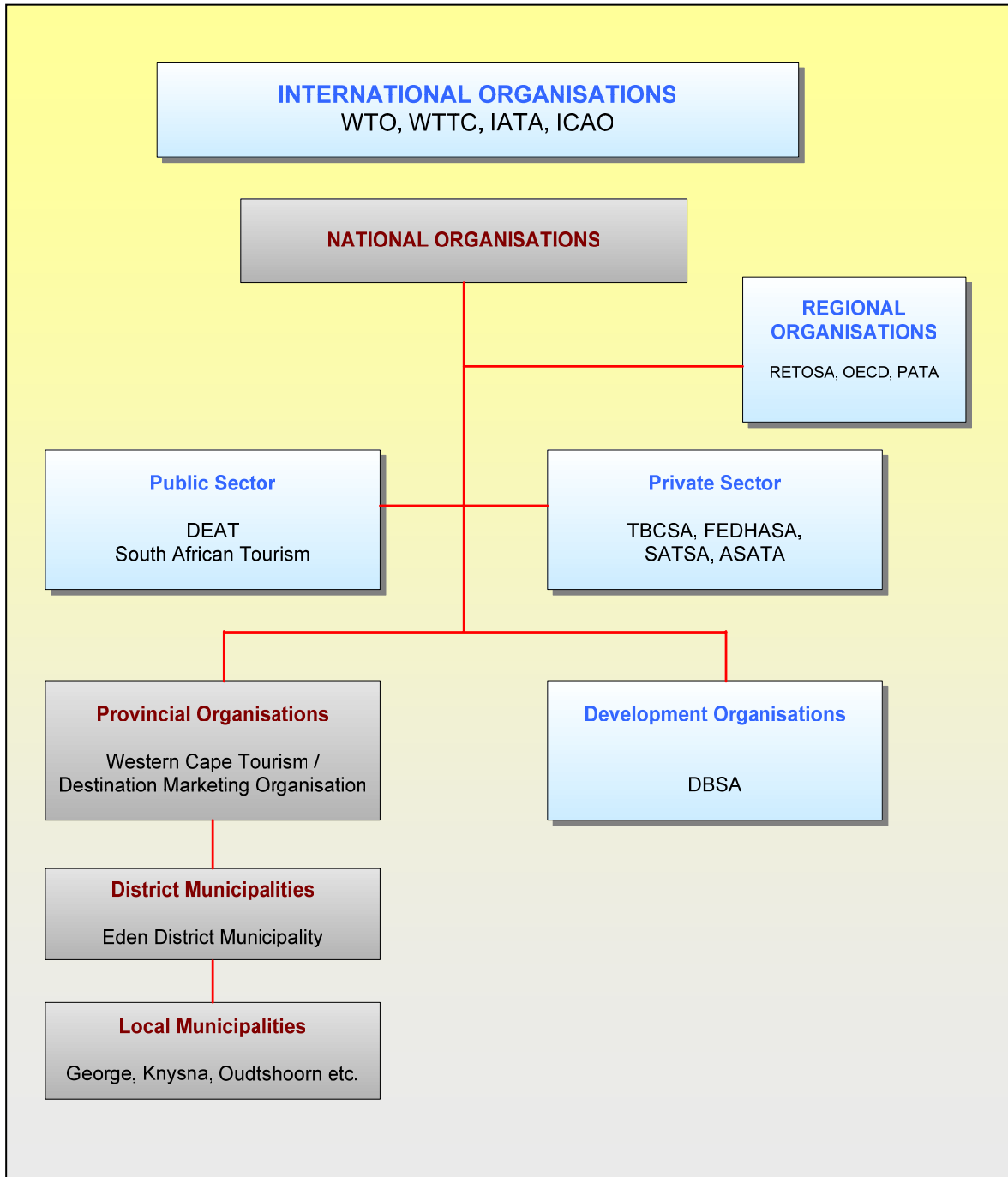
Figure 6.1 illustrates how the tourism industry in South Africa is organised. The highlighted sections represent those spheres of government in which this study is interested.

### 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 31<sup>st</sup> 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
<b>DMA<sup>12</sup></b>	3.21%	7 174	7 417	756	12 379	6	1 450	14 591
<b>George</b>	29.77%	66 290	69 122	36 934	68 219	351	29 908	135 412
<b>Kannaland</b>	5.27%	11 543	12 424	595	20 253	22	3 097	23 967
<b>Knysna</b>	11.31%	25 355	26 105	16 421	22 713	68	12 258	51 460
<b>Langeberg</b>	9.70%	21 337	22 779	1 781	30 949	43	11 343	44 116
<b>Mossel Bay</b>	15.71%	35 498	35 990	16 206	34 679	254	20 349	71 488
<b>Oudtshoorn</b>	18.62%	40 636	44 052	6 840	64 801	86	12 961	84 688
<b>Plettenberg Bay</b>	6.42%	14 344	14 840	11 067	11 738	99	6 280	29 184
<b>Total</b>	<b>100%</b>	<b>222 181</b>	<b>232 743</b>	<b>90 609</b>	<b>265 734</b>	<b>934</b>	<b>97 647</b>	<b>454 924</b>
<i>Source: EDM Spatial Development Framework, 2003</i>								

Table 6.2 depicts the growth tendencies of the different population groups in the EDM.

<sup>12</sup> DMA is an abbreviation for District Management Area.



**Table 6.2: Growth tendencies in the EDM**

<b>Ethnic Group</b>	<b>1991</b>	<b>1996</b>	<b>Growth % 1991/96</b>	<b>2001</b>	<b>Growth % 1996/01</b>
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.<sup>13</sup> 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

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<sup>13</sup> 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

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## 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.

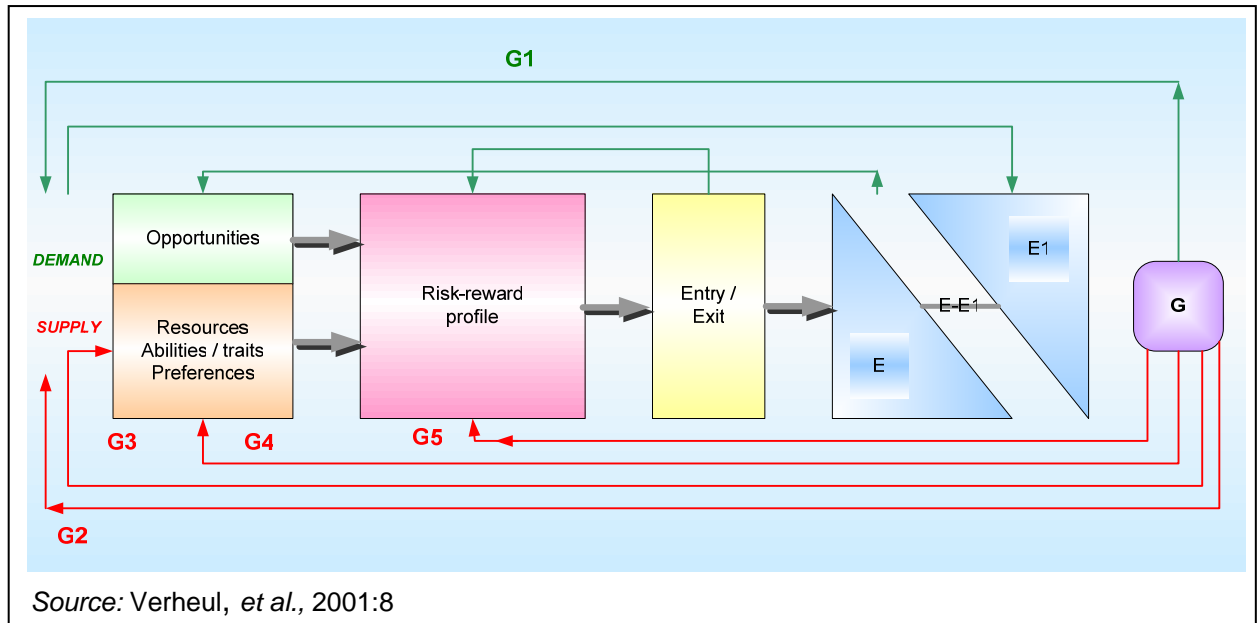
(Verheul, *et al.*, 2001:6).

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
<b>Macro (generic)</b>	Concerns the economy as a whole	<ol style="list-style-type: none"> <li>1. Taxation</li> <li>2. Labour market regulation</li> <li>3. Social security</li> <li>4. Income policy &amp; disparity</li> </ol>	National National National National
<b>Regulation of Dynamism</b>	Refers to balance of entry and exit by regulating entry and exit	<ol style="list-style-type: none"> <li>1. Establishment legislation (licensing). General and specific</li> <li>2. Bankruptcy policy (discharge clauses, postponement of debt, influence public attitude)</li> </ol>	<b>National/regional</b>  National
<b>Deregulation and Simplification</b>	Focus on stimulating free market and increasing the opportunities for competition	<ol style="list-style-type: none"> <li>1. Deregulation (relax entry regulations, promote competition, pursue privatisation)</li> <li>2. Simplification (reduce administrative burdens, reduce compliance costs of legislation)</li> </ol>	National  National
<b>Input related Policies</b>	Stimulates resources available to small firms	<ol style="list-style-type: none"> <li>1. Improving financial conditions (financial assistance through loans, grants and subsidies)</li> <li>2. Efficiency enhancing policies (business training, provision of information by consultancy and counselling)</li> <li>3. Specific entrepreneurship support policies (credit guarantee schemes, tax exceptions, subsidized facilities, encouraging networks)</li> </ol>	National  <b>Regional</b>  <b>National/regional</b>
<b>Sectoral and Problem-specific Policies</b>	Focus on specific sectors (IT, tourism), regions (rural, Southern Cape) or groups (women, PDI)	<ol style="list-style-type: none"> <li>1. Stimulating entrepreneurship activity among different groups (financial assistance, setting up help-desks, special support for women)</li> <li>2. Stimulating entrepreneurship activity within geographical areas (developing &amp; maintaining necessary infrastructure)</li> <li>3. Stimulating R&amp;D and high-tech firms</li> </ol>	<b>Regional</b>  National  <b>National/regional</b>
<b>Education</b>	Focus away from legislation towards education	<ol style="list-style-type: none"> <li>1. Government partnerships with secondary and tertiary providers of education</li> </ol>	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.

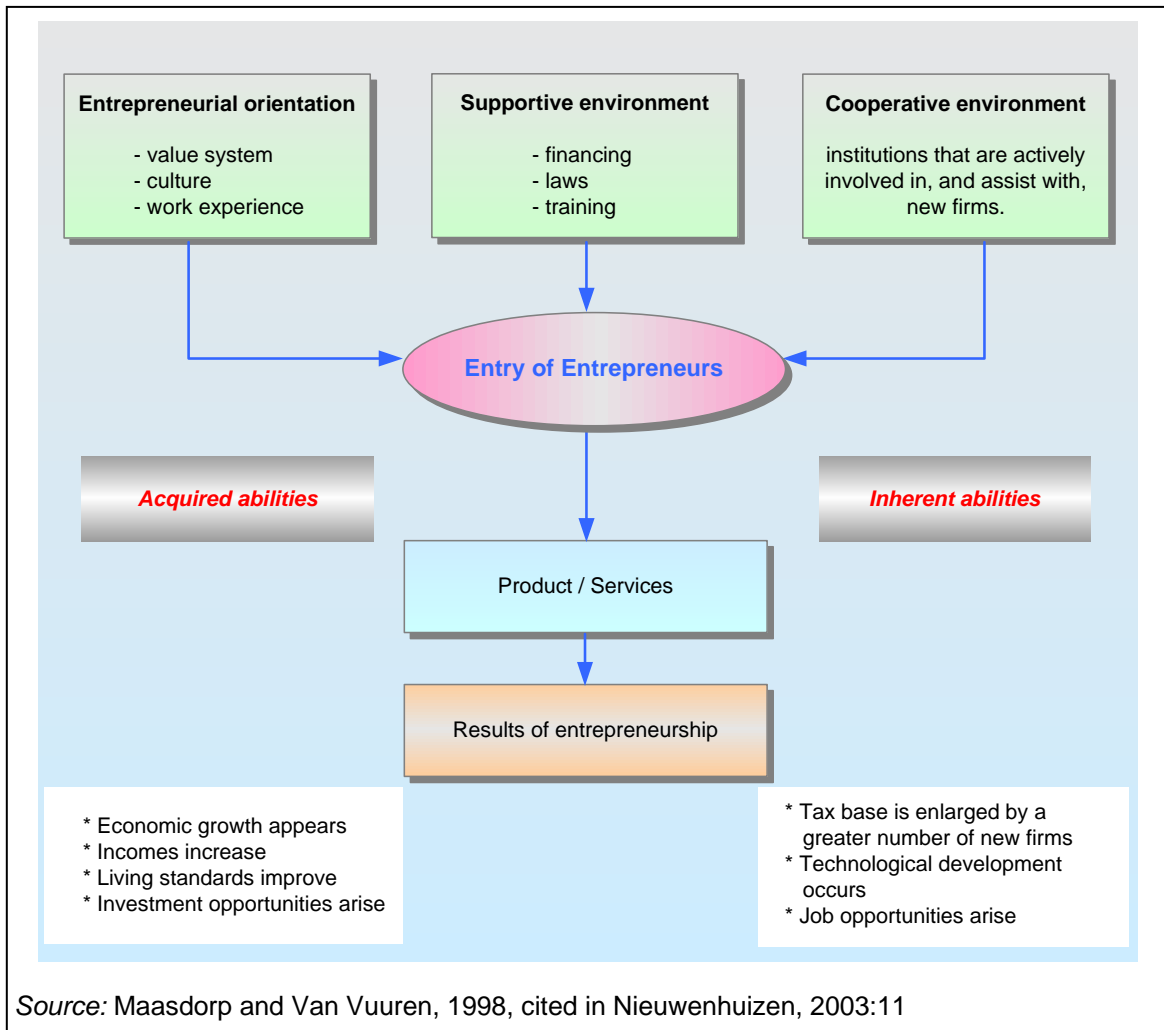
## **7.3 OVERVIEW OF PREVIOUSLY DEVELOPED MODELS**

### **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.

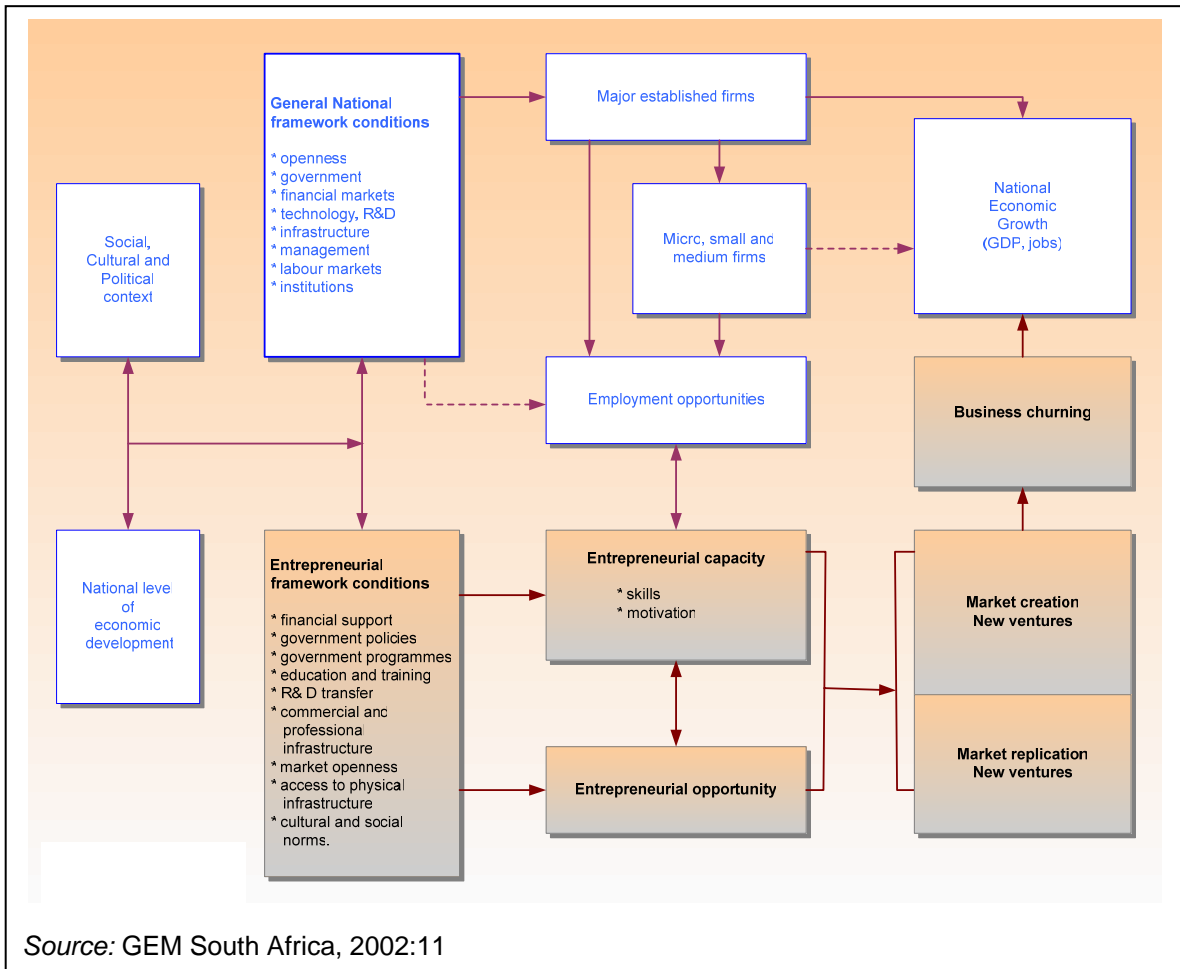
In fact, the social barrier of ethnic dominance in business ventures and certain subordinate groups that do not possess the ability to appreciate entrepreneurial opportunities and to capitalize on them, is seen as a limitation of this model. Any model of entrepreneurship development for South Africa 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.



Source: GEM South Africa, 2002:11

**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:

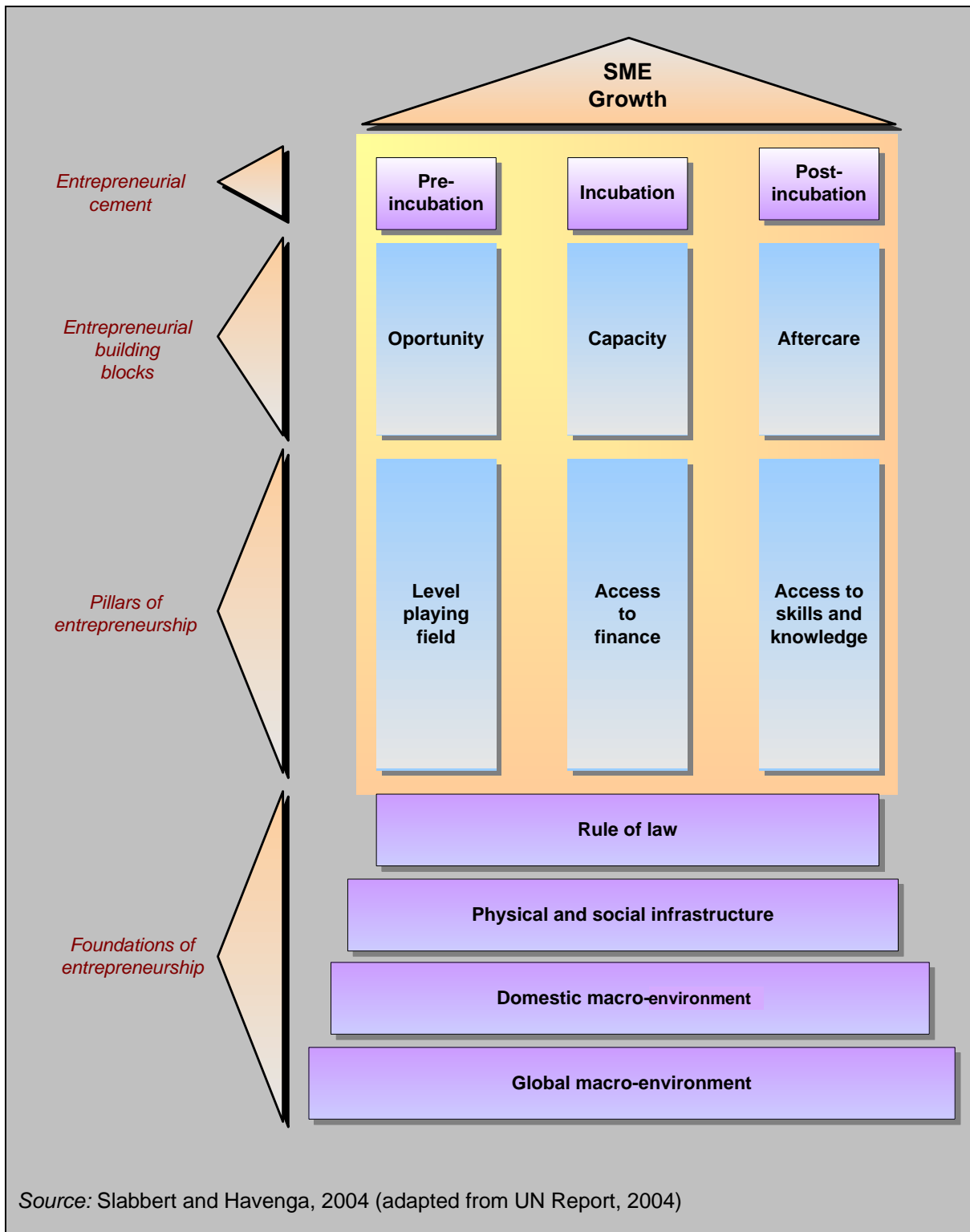
#### **7.3.4.1 Foundations for entrepreneurship**

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.

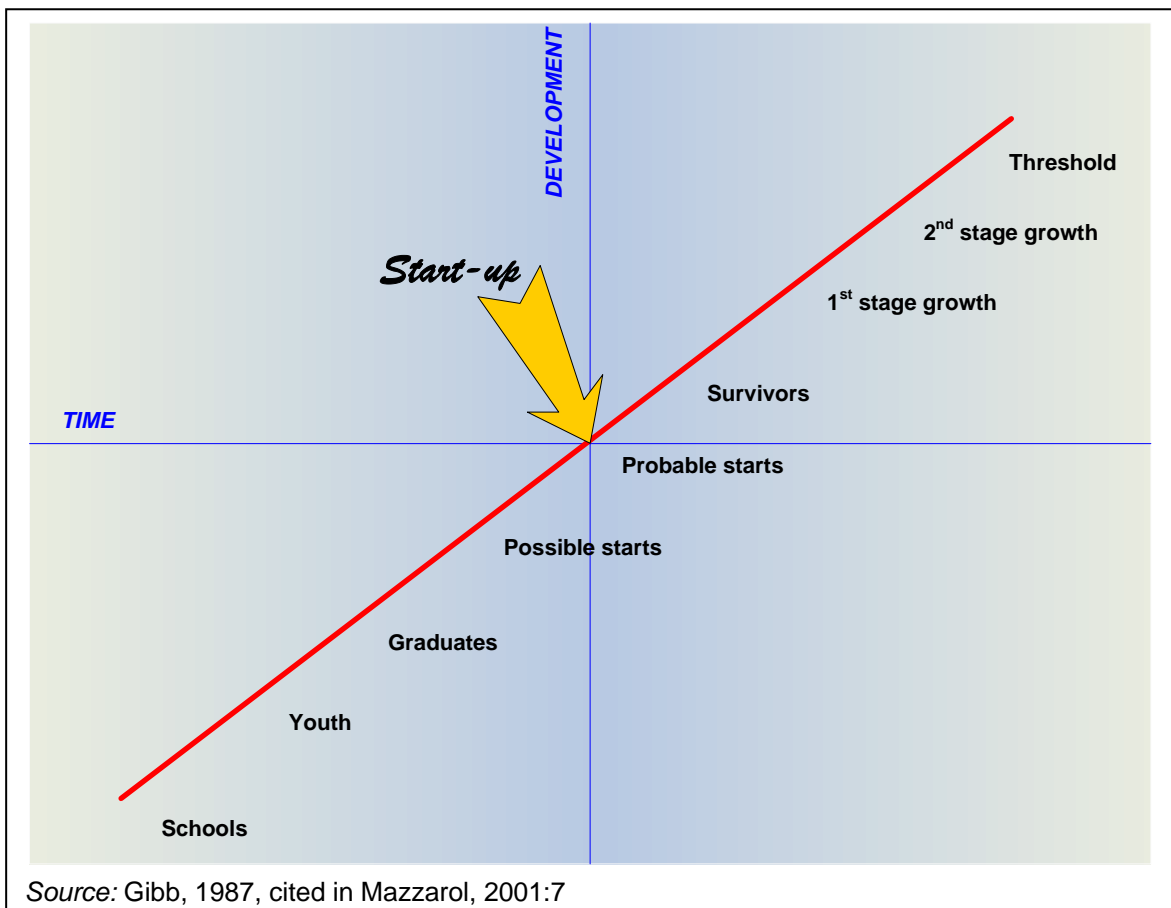
## **7.4 ENCOURAGING ENTERPRISE DEVELOPMENT**

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.

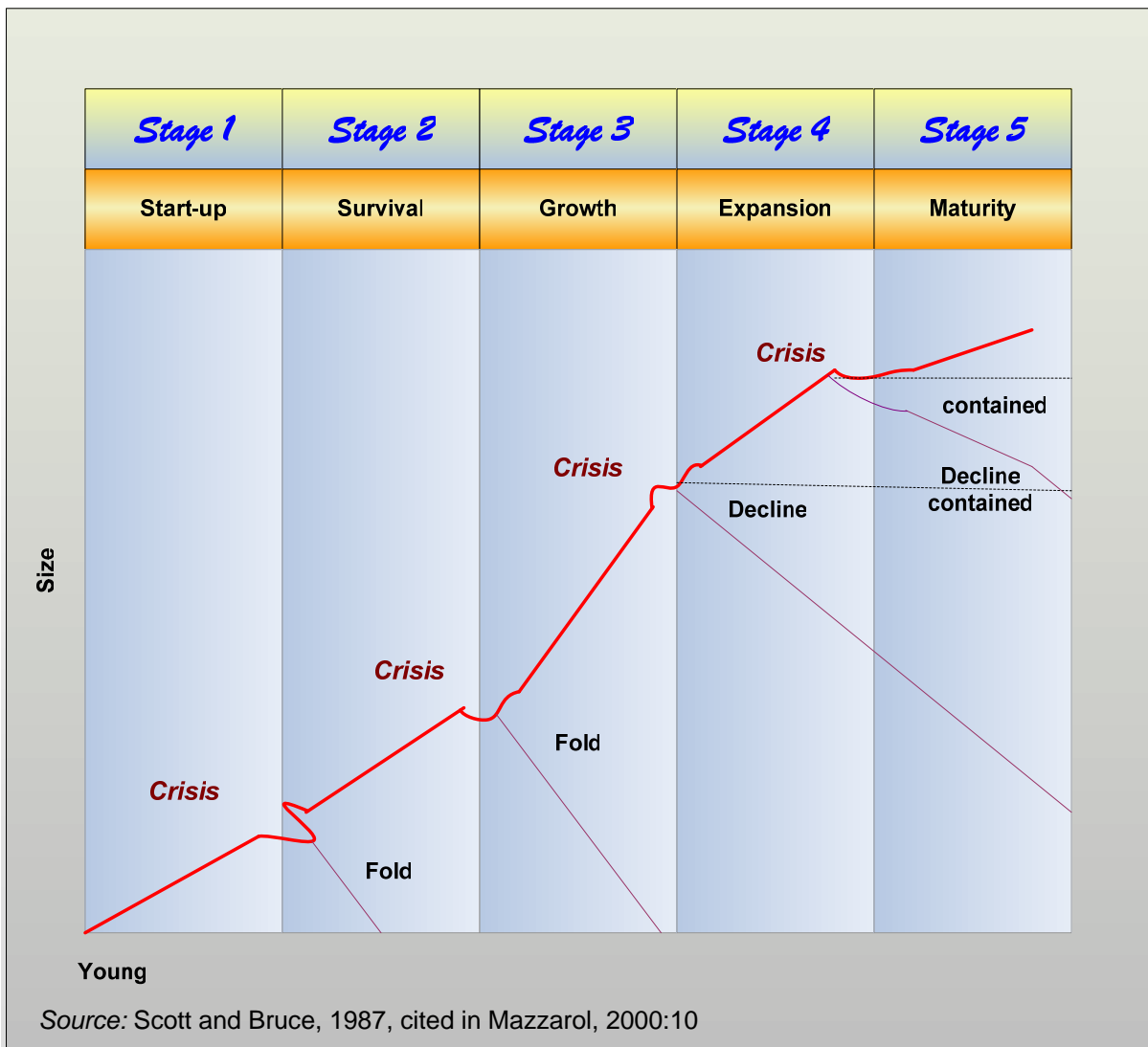


**Figure 7.5: Enterprise development cycle**

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:

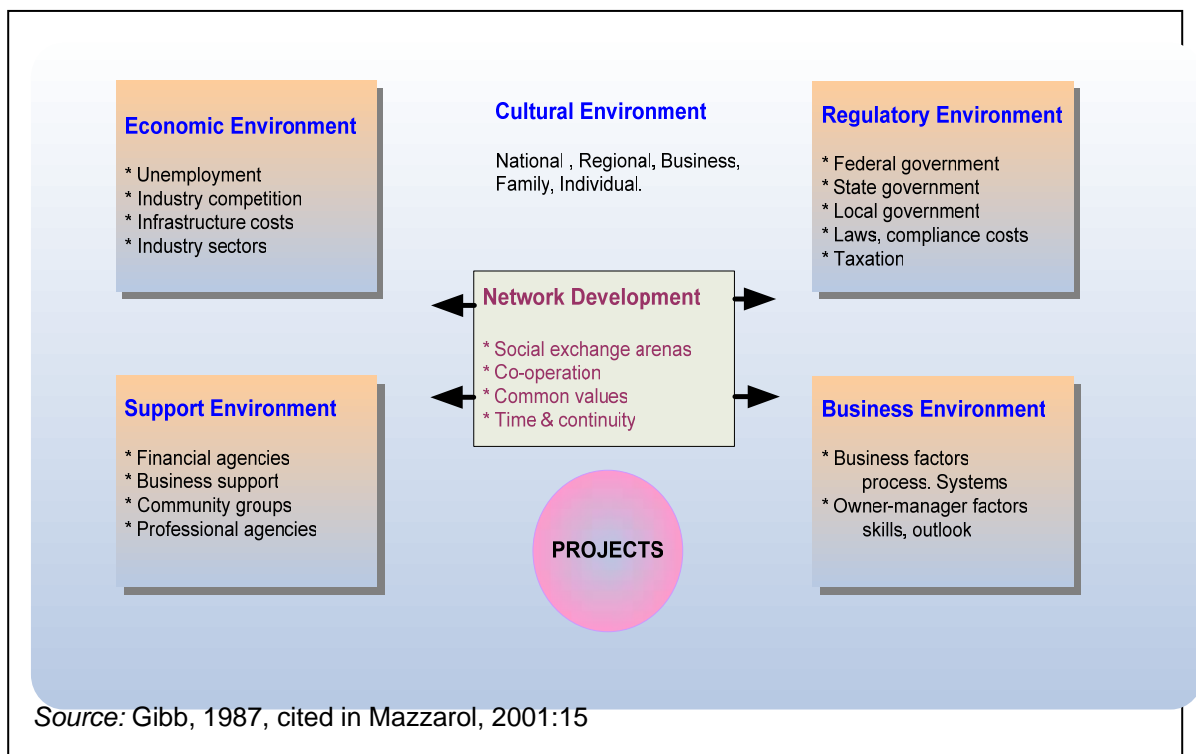
- **The economic environment** – This part considers the economic structure of the various industry sectors currently operating within the region.
- **The regulatory environment** – This part considers the legal environment which new ventures will be created or existing ventures developed. Of

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



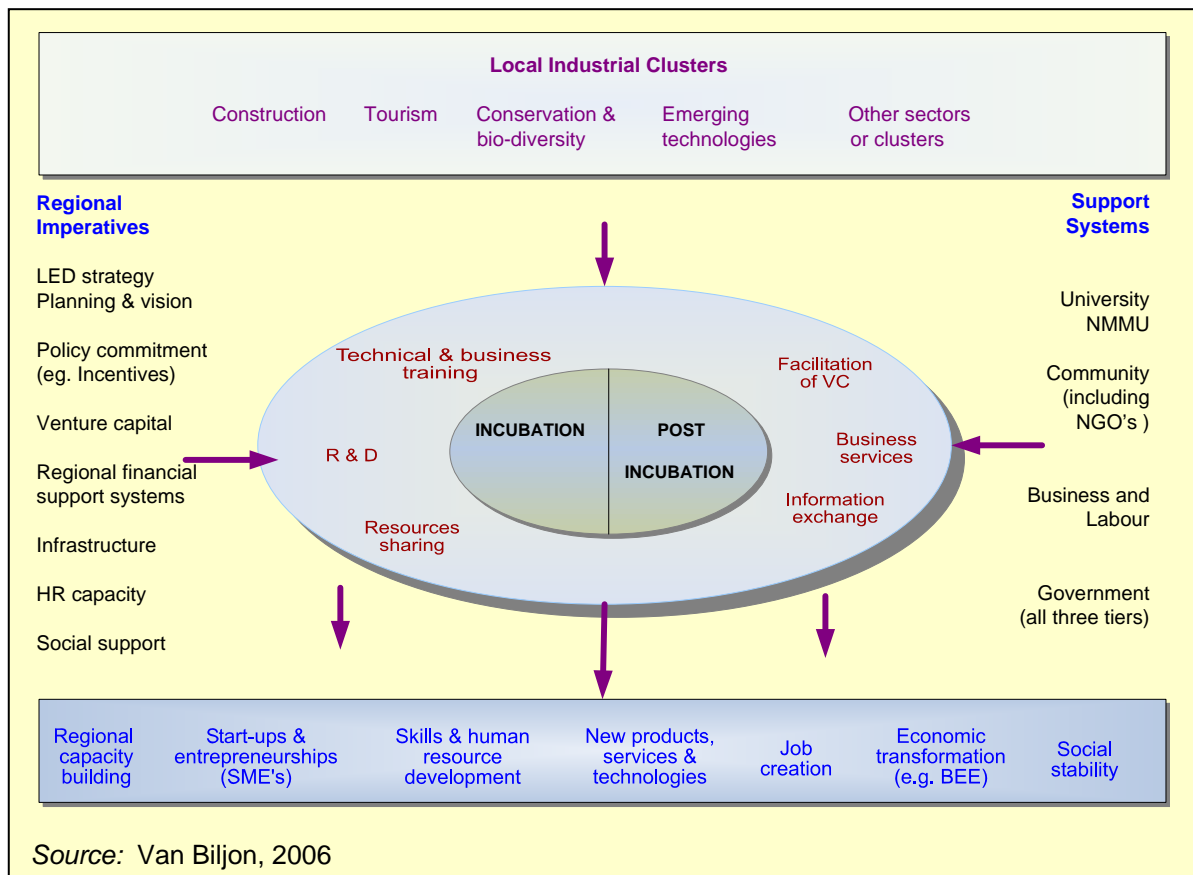
**Figure 7.7: Integrated regional enterprise development model**

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.