

Section 3

Chapter 9

A STRATEGY FOR THE DEVELOPMENT OF SMALL BUSINESSES OPERATING IN THE TOURISM SECTOR OF THE SOUTHERN CAPE

9.1 INTRODUCTION

Chapter nine represents Section 3 of the study, as depicted in Figure 2.2. The findings of the literature study (Section 1) are integrated with the results of the empirical study (Section 2) in order to develop a strategy for the development of tourism-related small businesses in the Southern Cape region.

This chapter is the culmination of the study, the purpose of which was to formulate a strategy for the development of tourism-related SME's operating in the Southern Cape, with a view to stimulating job creation, and to place the strategy within a suitable framework.

In summary, the preceding chapters have established the following:

- Chapter three – identified the role played by small businesses in the tourism economy and established that small business development could be equated with entrepreneurship development. The importance of considering the role of local culture on the level of entrepreneurship was highlighted.
- Chapter four – established that small businesses had a future under conditions of globalisation if certain international best practices were followed. These practices were identified and categorised according to area of responsibility.
- Chapter five – discussed the concept of planning and determined the role that planning should play as well as the government level at which it should take place. The levels considered were those of National,

Provincial, Regional and Local government. A strong argument in favour of regionalism was put forward and resulted in the choice of the local and regional governments for the function of planning and operational planning.

- Chapter six – offered a critical analysis of the role played by the South African Government in the local tourism industry and considered the Southern Cape as a case study.
- Chapter seven – provided an overview of SME development and entrepreneurship development models which are applicable to the South African situation. It also established the necessity of developing a framework within, and complementary to, the overall regional economic development strategy.
- Chapter eight – reported the results of the empirical study which reflected the desires, needs and perceptions of local tourism-related SME's with regard to the creation of additional employment opportunities.

The objective of this chapter is to integrate the information gathered from the literature study with that obtained from respondents in the empirical study, and to develop a strategy for the development of tourism-related small businesses that operate in the Southern Cape region (Objective No. 10).

This will be achieved by:

- identifying certain framework considerations;
- depicting them schematically;
- discussing the framework and how its success will be measured; and
- highlighting limitations of the framework / model with a view to making recommendations.

9.2 FRAMEWORK CONSIDERATIONS

The framework that follows has certain objectives and outcomes to be achieved. With this in mind, a certain methodology will be followed. The framework will also identify role players in the exercise, their actions or interventions, and where these actions should take place (i.e. at what level should they be implemented).

9.2.1 Aims and outcomes

The aim of this study is set out in Section 1.4. The aim of the proposed framework is to represent the strategy that is formulated for the development of tourism-related SME's. The success of this strategy will be reflected by the creation of additional employment opportunities within small businesses operating within the tourism sector of the Southern Cape region and, in so doing, ensure the equitable distribution of the positive benefits associated with the tourism industry among the people of the region.

Other outcomes resulting from the successful implementation of the model, and which are closely associated with the main aim, are the following:

- increased start-ups and entrepreneurship;
- skills and human resource development;
- new products, services and technologies,
- job creation;
- economic transformation (e.g. BEE); and
- social stability.

9.2.2 Construction methodology

To achieve these outcomes, the objectives of the proposed model were aligned with those of the proposed local economic development plan for the area. Those interventions that will achieve these objectives will be considered (See Figure 7.8, Section 7.4.2 and Table 4.2 in Section 4.4). The objectives are:

- to develop an entrepreneurial economy (establishing an environment which is conducive to encouraging new business start-ups);
- to stimulate entrepreneurship (the emergence and growth of new businesses);
- to stimulate local SME participation in the economy (the expansion of existing businesses); and
- to increase the competitiveness of local SME's.

By reaching these objectives the desired outcomes will be achieved.

9.2.3 Assumptions

Section 1 of the study (see Figure 2.2) identified those assumptions on which a development framework could be based. The assumptions have been categorised, firstly, as those assumptions which are applicable to all SME's and are termed general assumptions. The second category of assumptions includes those that are applicable to the tourism industry and are termed industry-specific assumptions. The final category includes those assumptions that apply to the Southern Cape region and are termed regional-specific assumptions.

9.2.3.1 General assumptions

- It has been established that the development of SME's can be equated with the development of entrepreneurship. This framework accepts this fact and incorporates it in the strategy (Section 3.4.1).
- One of the characteristics of the tourism industry is the fact that it operates under conditions of imperfect competition, and as such government intervention is necessary. Such interventions are also warranted if one considers the necessity of making special allowances to accommodate previously disadvantaged individuals (Section 6.5).
- National government has adopted the principle of SME development and entrepreneurship development as official government policy (Section 6.3).
- National government accepts the responsibility of providing an enabling environment for the development of SME's and entrepreneurship (Section 7.6.4).
- Planning for the development of small businesses should be decentralised and follow the route of regionalism whereby local and regional spheres of government are more involved, especially in the operational aspect of the planning function. Regional and local planning should take place along the policy guidelines set by the provincial and national governments. The proposed framework, therefore, confines itself to the local and regional

spheres of government only. Furthermore, the planning approach that is recommended is economically oriented and encompassing sustainability, community involvement and the integrated quality approach (Sections 5.3, 5.4, 5.5 and 5.6).

9.2.3.2 Industry-specific assumptions

- Industry characteristics in developing countries include the fact that there often exists a situation of imperfect competition. As such, the development of tourism-related SME's requires that provision be made for government interventions which will ensure the equitable distribution of opportunities among the local population (Section 6.5).
- The tourism-specific strategy that is developed should take cognisance of the region's overall economic strategy and supplement / complement such a strategy (Section 7.4).
- The framework should acknowledge any constraints placed on it that emanate from the local attitude towards entrepreneurship and should actively strive to influence this attitude advantageously (Section 7.2.3).
- The characteristic of seasonality and its influence on the sustainability of job creation should be taken into consideration (Section 3.5).
- The industry characteristic of leakages is not considered desirable and should be actively discouraged (Chapter 4).
- Since the industry is so fragmented and diverse, local government should accept the fact that it must organise itself into two separate divisions or branches, one catering for the marketing and promotional requirements of the industry (the demand side), while the other oversees the infrastructure and SME development requirements of the industry (the supply side) (Section 7.5).

9.2.3.3 Region-specific assumptions

- The population group that is most responsible for population growth in the area is the group of eighteen to thirty-five year old black youths who come

to the area to find work opportunities. The framework must make provision for their inclusion in the strategy (Section 6.4).

- The strategy should address the backlog of PDI (Section 6.4).
- The framework should be based on existing municipal processes (IDP) for the identification and funding of projects.
- The concept of Regionalism is actively pursued within the strategy (Section 5.6).

9.2.4 Components / role players

Although the vital role played by regional and local government in developing an industry specific SME development strategy is acknowledged, the model recognises that, although to a lesser extent, other institutions also have a role to play. Role players are identified as local and regional government, educational institutions (Further Education Training [FET] for NQF levels 1 to 4, and Higher Education [HE] for NQF levels 5 to 8), the community (including NGO's), business and organised labour. Provision is also made for contributions from the general community through Corporate Social Investment (CSI) (Section 6.3.1).

The framework not only identifies role players, but also stipulates and identifies those activities or actions (interventions) which the different role players can bring into operation at the local and regional levels to achieve the planning objectives (Section 3.4.5).

The types of planning activities or functions are also identified. For example, at the regional level the planning functions are specified as comprising both planning and operational planning, while at the local level the function is chiefly that of operational planning.

9.3 FRAMEWORK DEVELOPMENT

The framework depicts, schematically, a strategy for the development of tourism-related SME's and entrepreneurship within the Southern Cape region. The

framework is based upon certain assumptions, which are termed general assumptions, industry specific assumptions and region specific assumptions.

The model acknowledges that, although other levels of planning and policy determination exist (for example, the national and provincial levels), a strategy of regionalism, advocated as international best practice and supported by local tourism entrepreneurs, should be followed. It therefore identifies only those interventions that can be implemented by the different role-players at the regional and local levels of government.¹⁹

These activities or interventions are aimed at achieving identified objectives, which, when applied to the tourism sector of the Southern Cape, give rise to the desired outcomes which include the creation of more job opportunities. The framework encourages the measurement of results, feedback and the taking of corrective action. The model is therefore strategic in nature.

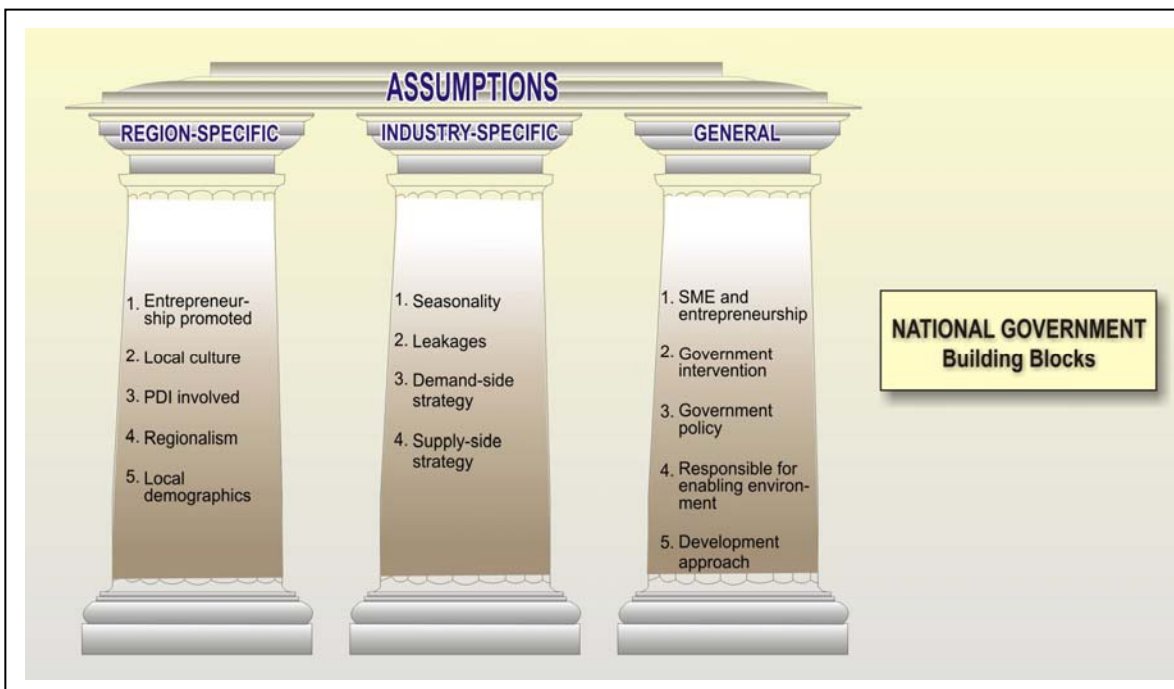


Figure 9.1: Framework components – Assumptions

It is accepted that the responsibility of providing a level playing field rests with national government and that the general, industry-specific and regional-specific

¹⁹ For an explanation of the differences between the regional and local levels, see Section 5.4.2 and Figure 6.1.

assumptions on which this strategy is built, play a leading role in achieving this level playing field. These three categories of assumptions represent the building blocks or foundations on which the model rests. Figure 9.1 depicts that portion of the framework on which the remaining part of the model rests.

These foundations serve to support the actions and planning activities at the various levels or spheres identified in Chapter five. However, if the concept of regionalism is pursued and attention is paid to the strong need for greater local government participation as expressed by respondents in the empirical study, then this framework considers only the regional and local levels of intervention.

Figure 9.2 reflects the intervention actions at the regional level.

Similarly, Figure 9.3 depicts intervention actions at the local level.

Annexure 11 and Annexure 12 contain a more detailed explanation of the various interventions which are depicted in the framework and which can be applied to achieve the stated objectives.^{20, 21}

The framework is represented by means of a box-like structure. The back and left side of the box-like structure are folded out by 180 degrees and 90 degrees respectively, in order for the reader to visualise, at a single glance, all the interventions that can be implemented.

On the sides of the framework the level under consideration is shown as well as the role players involved, the planning function applicable to that particular level, and a description of the planning functions.

²⁰ Those intervention actions which are not able to be implemented at these levels, are categorised under the action of “lobbying”

²¹ The interventions specified above as those to be lobbied for, were identified during personal interviews with Prof. F Hanekom (experience in the field of local government), Prof. E Van Biljon (NMMU) and M Hooghbaard (Local Economic Development officer of the Eden District Municipality).

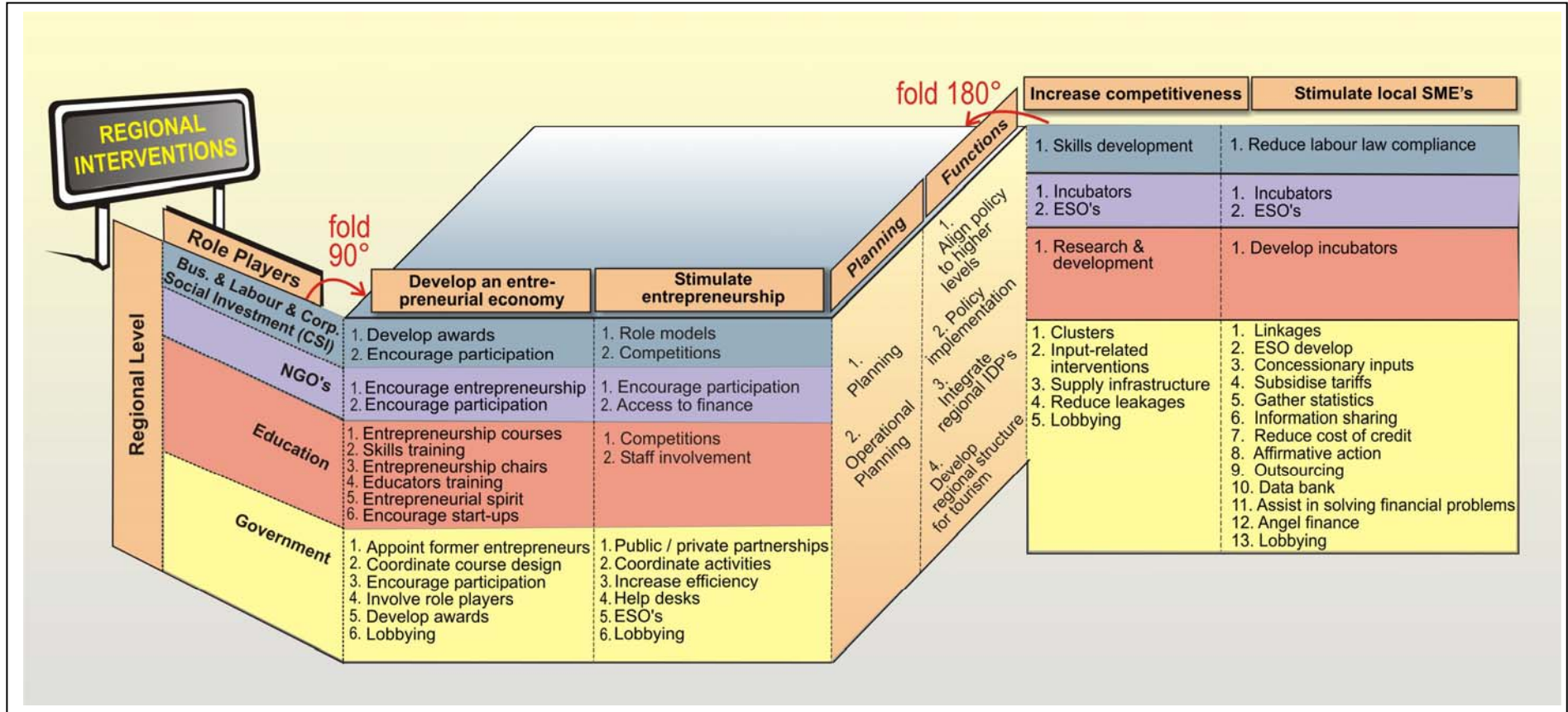


Figure 9.2: Framework components – regional interventions

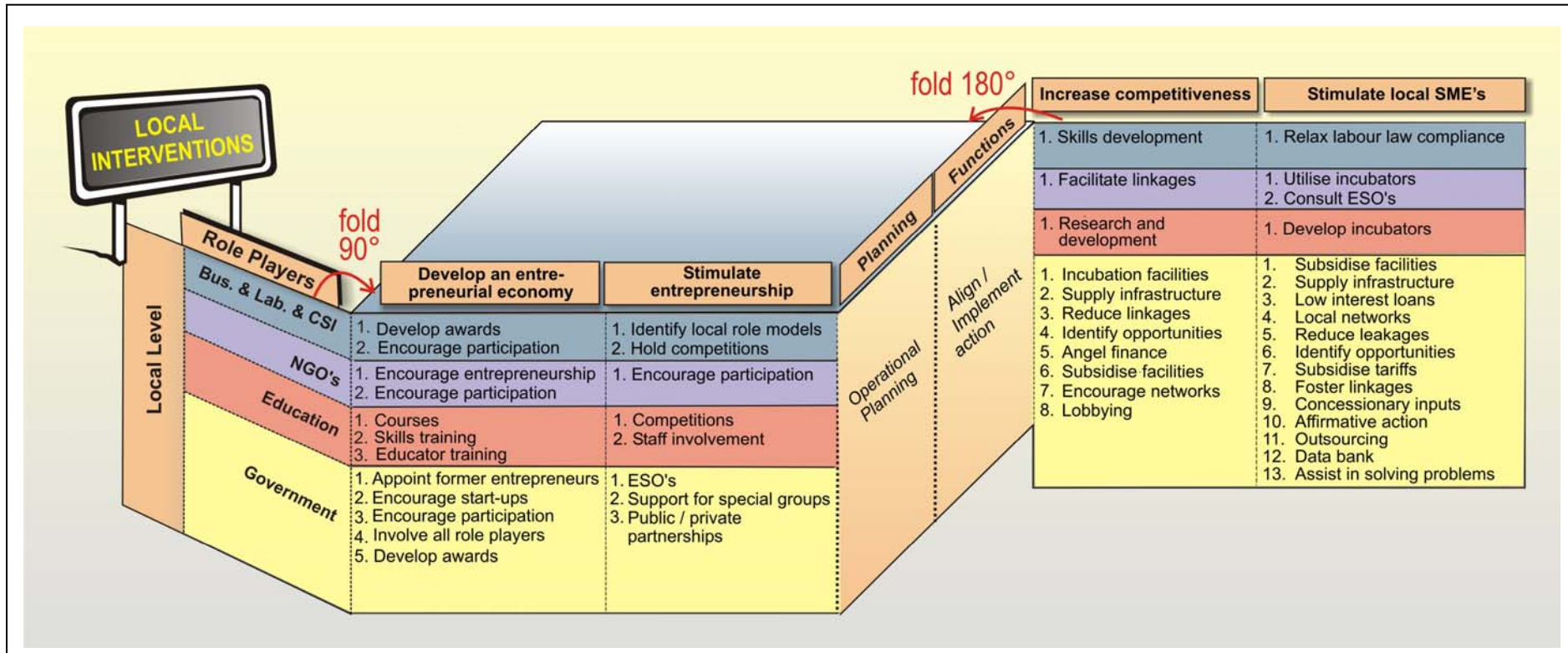


Figure 9.3: Framework components – local interventions

The front and back of the box-like structure identifies, per level per role player, those interventions that can be employed to achieve the specific objectives shown immediately above these interventions in the model.

Due to limited space, those interventions are only identified in a cryptic manner. However, a more elaborative description of the interventions is provided in Annexures 11 and 12.

The above interventions have an impact on the local tourism industry by influencing one or more of the objectives, which in turn result in the depicted outcomes. Figure 9.4 reflects these areas of influence and resulting outcomes.

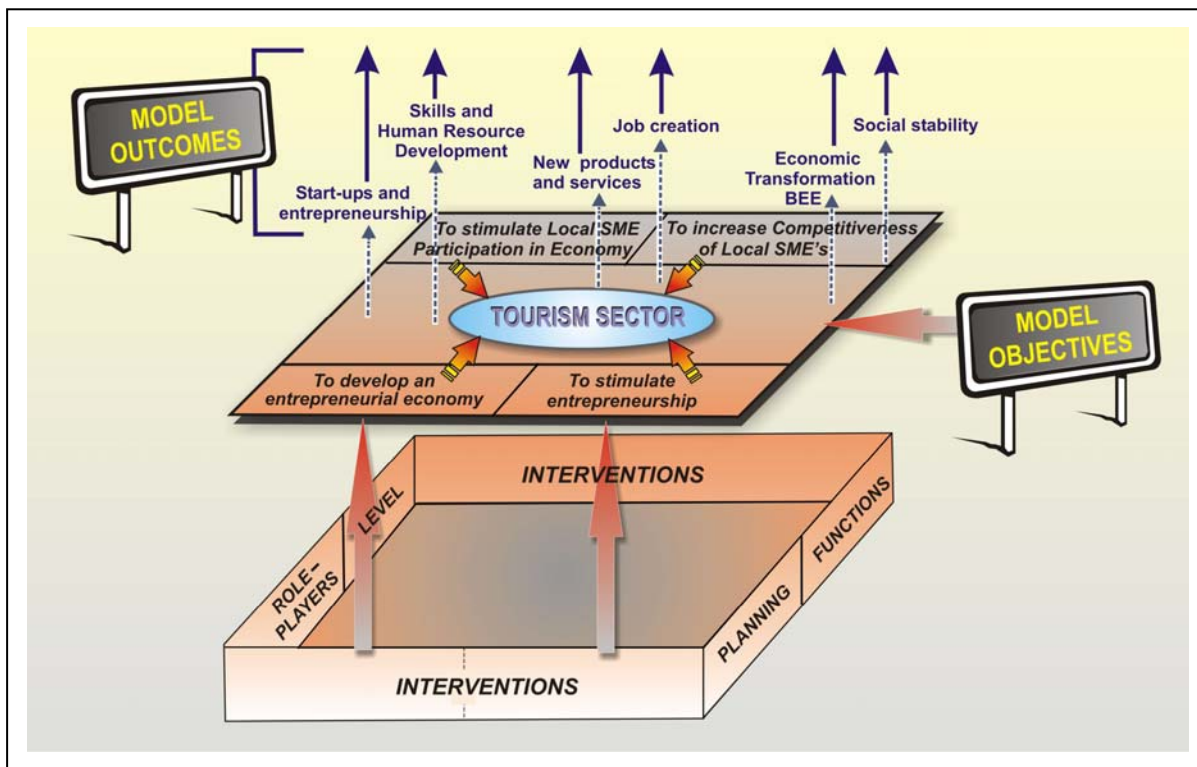


Figure 9.4: Framework components – objectives and outcomes

The interventions listed on the front left hand side of the model are identified as having an influence on the objective of developing an entrepreneurial economy, while those on the right hand side as having an influence on the objective to stimulate entrepreneurship. Likewise, the interventions on the left and right sides of the back of the box, are identified as having an influence on the objectives of

increasing competitiveness of local SME's and of stimulating local SME participation in the economy, respectively.

By combining these components the complete strategy is arrived at, as depicted in Figure 9.5.

In summary, the strategy is supported by general, regional-and industry-specific assumptions. The strategy involves the interventions of certain role players (Business and Labour, CSI, NGO's, the education sector, and government) at different levels (regional and local). These interventions influence the stated objectives, which, when aimed at the tourism industry, give rise to the desired outcomes.

9.4 MEASUREMENT AND TESTING

It was established in Chapter three that this study would make use of the “goal approach” and specifically the number of jobs created as a measure of the success of the developed strategy. In line with this approach, and in an effort to make the framework or model conform to the characteristic of being strategic in nature, a loop has been incorporated which allows for the results of the interventions to be assessed and, if not up to pre-determined standards, to change at any level the intervention strategies of the model.

The identification of possible intervention actions required to stimulate any of the four identified objectives of the model (Section 9.3.2), could be subjected to criticism based on any of the following arguments:

- Different government spheres have differing competencies provided for by legislation, for example, the Municipal Structures Act, 1998 (Act No. 117 of 1998) and the Municipal Systems Act, 2000 (Act No. 32 of 2000). Not all identified interventions can thus be implemented within all municipal areas. This holds true within the borders of South Africa and outside the borders of South Africa.

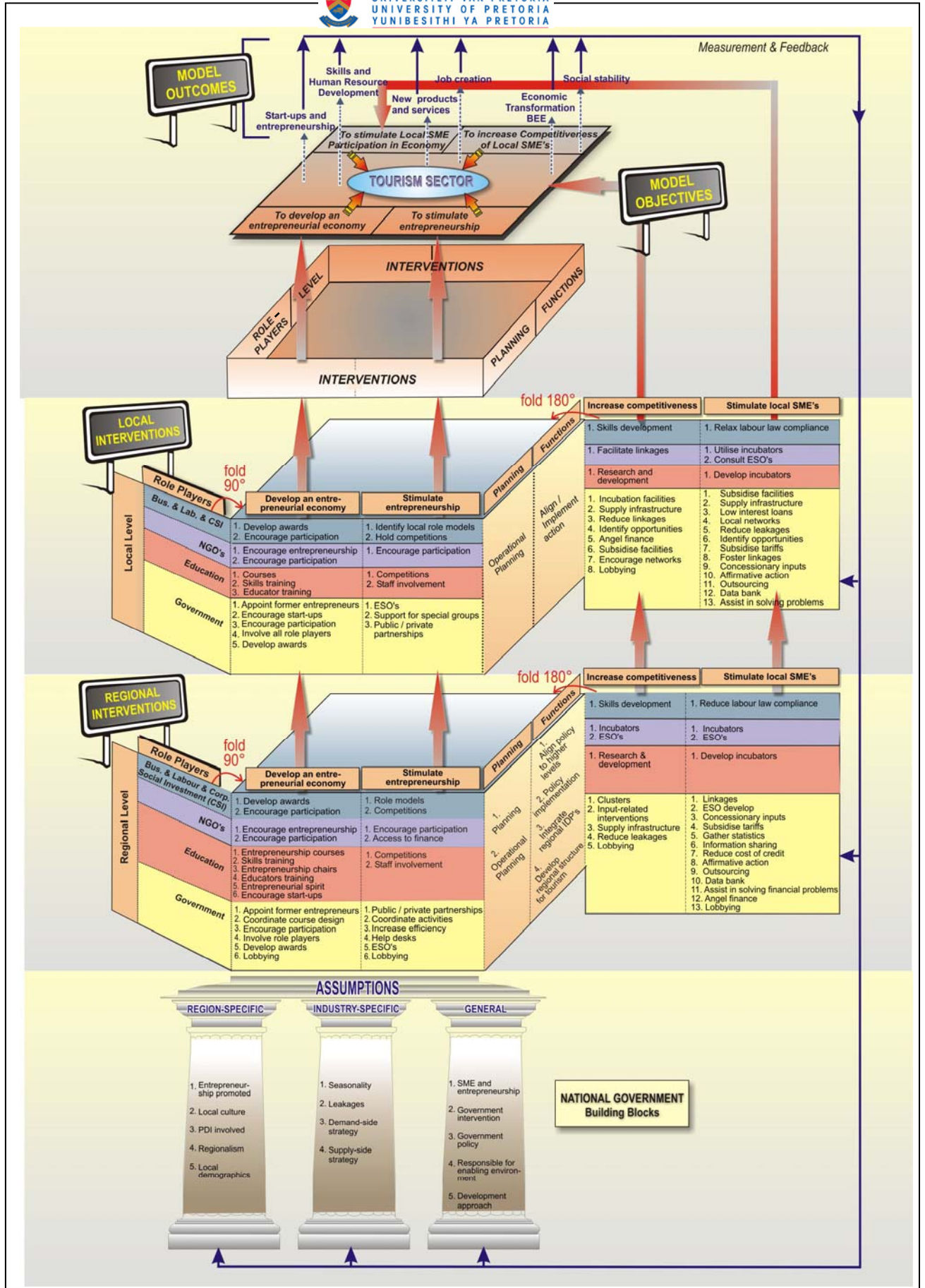


Figure 9.5: A framework depicting a strategy for the development of SME's operating in the tourism sector of the Southern Cape

- Municipal areas across South Africa have access to different resources which might preclude the use of certain interventions.
- Capacity constraints could also play a negative role in achieving the required objectives of the model.
- Certain municipal areas do not have the necessary support environment (the presence of education establishments, NGO's, Business and Labour organisations) needed to form a public/private partnership to jointly implement the development strategies required.

In an effort to ensure compatibility with, and applicability to, the environment of the Southern Cape area, three personal interviews²² were conducted in which interviewees were asked to identify those interventions for which, according to current legislation, local or regional government did not have the necessary authority to carry out.

Since all identified interventions are regarded as necessary to achieve the model's objectives it is important that none of them are discarded. Instead, it is recommended that the interventions for which a specific area does not have the authority or capacity to implement, be lobbied for. These interventions are indicated in the model as being actions that have to be lobbied for.

9.5 LIMITATIONS AND RECOMMENDED FUTURE RESEARCH

The framework has the following limitations that should be considered when applied to an area or destination.

9.5.1 Testing

The framework / model is based on theoretical fact as well as on perceptions of practising entrepreneurs in the tourism industry. The success of any model is determined by testing in the field. A shortcoming of this model is the fact that, due mainly to time constraints, it has not been field tested.

²² Prof. E Van Biljon (NMMU), Prof. F Hanekom (UNISA), and Mr M Hooghbaard (LED officer of the Eden District Municipality).

It is recommended that this model be field tested for both practicality as well as applicability.

9.5.2 Scope of applicability

One of the foundations on which this framework is built is regional-specific assumptions. It is therefore only applicable to the region known as the Southern Cape. A possible area of further study could be the testing of its applicability to other regions by substituting the new region's specific demographics.

9.5.3 Legislative constraints

In order to implement this model, certain organisational structures in local and regional government might be required. Due to legislative constraints it may be impractical to establish the necessary structure required to achieve the model's objectives. Furthermore, in order to implement the required interventions, certain competencies may be necessary but, because of current legislation, not be permitted to the applicable sphere or level of government.

9.5.4 Population and sampling

This study has only considered small, medium and micro enterprises which form part of the mainstream of economic activity. Those micro industries that were not registered with SARS or the Eden District Municipality (often referred to as the informal sector) were not considered. However, in light of the fact that it is estimated by many researchers that this informal sector is responsible for creating most of the new jobs, it is recommended that further research be conducted to determine the needs of those entrepreneurs who are active in the informal sector.

This study was hindered by the fact that the accuracy of its database was put in jeopardy as a result of the practice by the Eden District Municipality of keeping records for a period of five years after cessation of business activities. This resulted in the population of the database being overstated by an estimated 20%.

This resulted in a decrease in the validity of the data obtained from the empirical study.

9.5.5 Forms of job creation

It has been established that tourism brings about jobs that can be categorised as direct, indirect or induced job opportunities. Because of the size and fragmentation of the tourism industry, this study only considered those SME's in which direct job opportunities were created.

Further research could include, or be specifically directed towards the measurement of indirect job creation.

9.6 RECOMMENDATIONS

The importance of planning for the development of SME's and entrepreneurship in the tourism industry should be acknowledged by local authorities, and this function should not be confined to that of marketing and promotion of the destination or region. Nor should it be confined to national and provincial spheres of government, but rather be decentralised in order to overcome the current practice by all government levels / spheres of just repeating policy objectives and not actually planning for their particular region or area. It is recommended that the closer the sphere of government gets to the particular region, the more it should become involved in the operational component of planning.

As a first step, it is recommended that the EDM establish a structure within the EDM and local level-B municipalities to devise strategy and make plans. This structure should be established in conjunction with the private sector and PDI, and could comprise one or more of the structures identified in Annexure 4 through 8.

9.7 SUMMARY AND CONCLUSIONS

The aim of this study was to find a practical solution to the developmental requirements of tourism-related SME's operating in the Southern Cape region with

a view to stimulate job creation. The objectives of the study were set out in Table 1 in Section 1.3.

In determining the role of small businesses in the tourism industry and establishing the importance and requirements of tourism-related development planning, this study has revealed that tourism-related SME's have many benefits and can play an important part in local economic development if properly planned for, preferably at the local and regional levels of government. The success of this strategic planning exercise can be measured by the number of additional job opportunities that are created. Indeed, the creation of new jobs could be the main objective of such a planning exercise.

In establishing whether SME's have a future under conditions of globalisation, the study has also shown that, despite the negative influences on small businesses by the phenomenon of globalisation, there still exists a positive future for those SME's which follow international best practices.

Attempting to define the role of government in the tourism sector, the study highlighted the role played by government in the Southern Cape within the tourism industry. It was found that the study area was not sufficiently organised to plan for the successful development of SME's within the region. This was confirmed by an empirical study that indicated overwhelming evidence in favour of more involvement by regional and local government in the development of the tourism industry.

The study also placed in perspective the concepts of entrepreneurship development and SME development and presented an evaluation of different entrepreneurship models pertaining to South Africa.

This section of the study was followed by an empirical study in order to:

- establish the relationship between job creation and increasing tourism visitors to the Southern Cape region;
- determine whether central government's industry incentives were contributing to local job creation;

- establish what special requirements were necessary to stimulate local job creation; and
- determine what local and regional government could do to stimulate job creation and entrepreneurship in the Southern Cape region.

The results of the empirical study established a direct job multiplier of 1,7 for the region under consideration. It was also found that incentives from central government were not reaching the businesspeople that needed them in the Southern Cape region. The results showed the importance of activities which could be implemented by local and regional government and highlighted those interventions which entrepreneurs wanted to be performed locally.

Finally, the study combined the findings from the empirical study with those emanating from the literature study, and developed a strategy for the development of small businesses in the tourism sector of the Southern Cape region. This strategy was depicted in a framework model shown in Figure 9.4.

The findings of this study will contribute greatly towards the development of tourism-related SME's operating in the Southern Cape region.