

Contribution of guest houses to local economic development through procurement of locally produced products and services in the Eden District Municipality, South Africa

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Abstract

Tourism has come to be seen as a key driver for local economic development in South Africa, as it provides opportunities for pro-poor and community-based initiatives. On a global scale, the challenges of confronting poverty and unemployment continue to dominate the development agenda. The ability of Local Economic Development (LED) to empower local people has earned favour with national governments and development theorists. The imperative facing South Africa to achieve a more equitable and sustainable economy is essentially the challenge to adopt and implement a development approach that will reduce poverty and unemployment (which are the two key objectives of LED) to the greatest extent. It is within this context that the South African government has sought to incorporate LED into their economic development framework, predominantly through the decentralisation of development control and planning to the local government level. This study examined the contribution of guest houses to LED through procurement of locally produced products and services for their operations in the Eden district municipality. The results of the study indicates that majority of the guest houses (64.2%) are using locally produced products to a large extent with 32% using locally produced products to a little extent whilst 3.2% not using locally produced products at all. Majority of these guest houses spend between R5 000.00 and R10 000.00 per month counting 68.8%. These results infer that guest houses are indeed making a positive contribution to LED through their usage of locally produced products.

Key words: Guest houses, Local Economic Development (LED), locally produced products

Introduction

The primary focus of this study was on the contribution of guest houses to local economic development (LED) in the Eden District Municipality through procurement of locally produced products. Guest houses are classified under accommodation, which is one of the sub-sectors of the tourism industry. According to the World Tourism Organisation (WTO) (2005), tourism is one of the biggest contributors to global economic and employment growth. Equally vital is the role accommodation plays in the tourism industry. Callon, Miles and Muniesa (2007: 21) assert that the “accommodation sector is one of the most key sectors of the tourism industry”. In fact, accommodation, or lodging, is by far the largest and ubiquitous sub-sector within the tourism industry. With very few exceptions,

tourists require a location where they can rest and revive during their travels, or a place to stay when arriving at a tourism destination. This means that accommodation is an essential support facility in the destination regions. There is immense diversity in the types of tourist accommodation offerings, ranging from accommodation that provides for one or two guests in a simple home style setting, to bedroom factories with the capacity to cater for up to 5 000 guests. Most forms of accommodation are characterised by spatial fixity (Pender and Sharpley, 2005: 17). This means they occupy fixed locations within environments which may change due to both macro and micro environmental factors. These factors are both controllable and uncontrollable and hence the need to adapt to the changing business circumstances by the accommodation providers.

Relationship between LED and tourism

Faced with the problems of declining terms of trade for agricultural products and high levels of protection against manufactures, many developing countries have turned to tourism as a possible alternative source of growth (Nel, 2001). Resources have been devoted to the provision of airports, local transport infrastructure and hotels, mainly aimed towards the international tourism market. Such supply-side improvements have been fuelled by the increasing demand for long haul tourism as air transport technology has improved and accessibility to developing country destinations has increased (Nel, 2001). Thus, tourism has become a major economic activity within developing countries, often contributing more foreign currency than traditional primary commodity exports. In developed countries, global economic restructuring has been linked to a loss of manufacturing employment, together with a growth in information communications technology and the service sector (Rogerson, 1997). LED, in terms of seeking new manufacturing and industrial development, was an early response to these economic conditions (Nel, 2005). This author further indicated that the promised benefits of greater employment, a rejuvenated industry and economy were not realised. However, while the environmental and social consequences proved costly, the methods used by local government to attract industry, such as tax incentives and land-use subsidies, often added to these costs (Nel, 1994).

While cities needed to become entrepreneurial, to resolve the economic situation they were in, it was realised through these early failed attempts at LED, that LED has to be for the benefit of the whole community and must take environmental, social and economic factors into consideration, in order for it to be truly effective (Nel, 1994; Rogerson, 1997).

Recent responses to the failure of economic markets, and of efforts to include the developmental needs of the poor, have fostered a growth in 'pro-poor development', as articulated in the Millennium Development Goals (MDGs). The MDGs are the eight international development goals that were established following the Millennium Summit of the United Nations in 2000, following the adoption of the United Nations Millennium Declaration. The eight MDGs which range from halving extreme poverty rates to halting the spread of HIV/AIDS and providing universal primary education form a blueprint agreed to by all the world's countries and all the world's leading development institutions. Achieving economic sustainability and the promotion of social justice mean that a local economy, which takes the poor into account, is essential (Nel & Rogerson, 2006).

The nature of tourism accommodation

Accommodation is a fundamental element of the tourism product and not only is it the largest and most ubiquitous subsector within the tourism economy (Cooper et al., 1998: 313). Accommodation typically accounts for around one-third of total trip expenditure, but it is also an essential ingredient of the tourism experience (Goss-Turner, 1996: 27). At the

same time, however, the growth and development of the accommodation sector in particular is also intimately related to the overall development and success of tourism destinations in general. For example, the total supply of bed spaces in relation to a destination's arrivals figures is a powerful influence on occupancy levels, profitability, employment in the sector, investment and the longer-term ability of accommodation providers to retain control over pricing levels. Similarly, the physical location, density and quality of accommodation, and the extent to which it is balanced with the broader development of infrastructure and tourism-related facilities, is an important element in the overall tone or attraction of tourism destinations. This, in turn, directly influences the ability of destinations to survive in an increasingly competitive international tourism market. In short, the success of tourism destinations is largely dependent upon the appropriate development of the accommodation sector. The choice of accommodation reflects, by and large, the needs and expectations of the tourist and, as a result, both the quantitative and qualitative characteristics of the supply of accommodation services directly influence the type of tourism/tourists attracted to destination areas.

Accommodation is a base of the tourism industry as it is a vital and fundamental part of tourism supply. Tourists in their travel require location where they can rest and revive during their travel. As a result, commercial accommodations are in existence. There is great diversity in size and type of accommodation in relation to location and services provided. The services of accommodation facilities vary from each other based on their targeted customer groups. As one of the major components of tourism supply, accommodation constitutes the most important segment of the tourism industry. Availability of accommodation in the area represents the image of a tourism destination, as it is one of the basic requirements for tourists in their travel. The role of accommodation in the tourism industry is central because it provides a support service for the wider motivation that brings the visitor to the destination.

Guest houses facilities

The guest house forms a sub-sector of tourism accommodation. It actually embraces different types of tourism operations with similar characteristics that offer beverage, food and accommodation in a small family style environment. These kinds of operations could offer relatively the same kind of service offered by small hotels, which would on average have between twenty to fifty rooms, although the guest house includes a more homely environment where tourists may share facilities and meals with the hosts. George (2012: 255) defines a guest house as an existing home, a renovated home or a building that has been specifically designed as a residential dwelling to provide overnight accommodation, together with public areas for the exclusive use of its guests. It must have more than three rooms. In this research, this definition was applied and therefore only guest houses that had three rooms and more were considered for inclusion in the study. Guest houses have a long tradition internationally. Inns, for example, are ubiquitous in the United States of America, with guest houses normally found in the upper-market area of a city or town, most often near tourist attractions and easily reachable by car, taxi or bus service (Page, 2009: 273). In Germany the *Gasthaus* is famous, while in the United Kingdom, small and family run properties with fewer than 12 rooms dominate the B & B /small hotel sector (Henning, 2004: 8). In Spain the *paradores* dominate and have up to ten rooms with occupancy rates as high as 100% on a day to day basis.

In France, guest houses are known as "*hotels du charme*" or "boutique hotels", while "*Gîtes*" provide self-catering accommodation in or near small villages (Lyons, 1993). The "*Gîte*" itself may be a small cottage, village house or a flat in the owner's house. Over and above the presence of guest houses in New Zealand, another form of serviced accommodation found in that country is the so-called "home-stay" concept. Here the visitor stays in a house on a farm with a family who act as hosts and allow the visitor to

experience the local way of living. This also enables rural farmers to supplement their income (Page, 2009: 273).

Initially in South Africa, the term guest house indicated that the establishment must consist of four or more bedrooms. Each bedroom must have an en suite bathroom or the guest house must have a private bathroom for the exclusive use of clients. Furthermore, the establishment must have public areas that are exclusively for the use of the clients (Henning, 2004: 43). However, it is in modern times acceptable for a guest house to only have one or two bedrooms.

Major international events such as conferences and sport tournaments depend on the standard of accommodation provided in the host country for its success, including guest houses. It is argued by Henning (2004: 8) that the guest house sector in South Africa “really started its rapid growth in 1995, boosted by the Rugby World Cup”. Today, guest houses have become a preferred accommodation choice for many international and local travellers in South Africa.

Procurement of locally produced products by guest houses

Procurement is often a missed opportunity to stimulate the local economy, as most tourism companies tend to deal with large – possibly distant – well-established suppliers. While changing procurement practices is neither quick nor easy, in the right circumstances it can be an effective way to gain local social license, diversify the product, increase customer satisfaction, and decrease operating costs. Development of small and micro enterprises can transform the local economy. An SME is described by the National Small Business Act of South Africa of 1996, as amended in 2003, as a separate distinct entity including cooperative enterprises and non-governmental organisations managed by one owner or more, including branches or subsidiaries if any is predominately carried out in any sector or subsector of the economy mentioned in the schedule of size standards and can be classified as SME by satisfying the criteria mentioned in the schedule of size standards. Many such enterprises are ‘survivalists’ – operating under such constraints that the entrepreneurs do not earn a decent living from them. But if they can secure new contracts, upgrade production, and invest in expansion, the businesses can thrive, which in turns creates further local linkages and growth. The potential for job creation is considerable.

The focus of this research was mainly on procurement by the accommodation sector (Guest houses), as this is where there is most potential for procurement from smaller, local and disadvantaged entrepreneurs, e.g. for supplies of food, soft furnishings, guest amenities, security, laundry and gardening services.

Encouraging government and other institutions to purchase locally produced products can strengthen the local economy. It establishes new institutional markets for local producers, maximizes the freshness and quality of products served by these agencies, and can support improvements to local products infrastructure, such as distribution and processing facilities. Supporting the local produced products economy can also have important economic, quality of life, and environmental benefits. Benefits include employment opportunities with living-wage jobs develop through products production, processing, and sales.

According to George (2012: 332) to strengthen the local economy through usage of locally produced products, there should be an increase in local linkages and this can be achieved by the following main types of local linkages:

- Procurement from the local enterprises – where guest houses can purchase goods and services they need from smaller local suppliers. In this regard; guest houses can

provide training to the smaller businesses so that the required quality standards are met.

- Local employment and wages – where remuneration in the tourism industry has a reputation for being very low. Income from direct employment in the tourism industry is one of the main sources of economic benefit for the local community. Guest houses should therefore ensure that they pay their staff a competitive living wage. This income will, in turn, most likely be spent directly in the community, leading to a significant multiplier effect, overall upliftment and growth. Moreover, it is vital that guest houses should commit to training and up-skilling staff. If skills levels are increased, new business opportunities and the expansion of the local economy can be realised.
- Building local partnerships – local partnerships differ from stakeholder participation in that partners usually share the risks and benefits. Such partnerships ensure that there is personal incentive to see the business grow and prosper. Another option is for the EDM to embark on the development of a comprehensive database of suppliers and buyers of tourism goods with whom guest houses can form partnerships. This database should be developed with the input of various stakeholders and knowledge partners.
- Organisations like the business chamber, tourism information centre, local tourism offices (LTO's) and other accommodation providers should form partnerships where they can refer business opportunities to the guest houses if they receive enquiries from customers.

Benefits of local procurement

- **Cost-saving** - Although not always the main objective, local supplies may also be cheaper.
- **New, or more distinctive, products and services** - Where local people provide services or products that are distinctive, guests value the difference.
- **Product enhancement, increased guest satisfaction, and brand recognition** - While guests might not always be directly affected by who supplies the linen, laundry or carpentry, they do benefit from the indirect effects on staff morale and strong corporate values.
- **Social license and reputation** - Strong links between a tourism business and local suppliers won't go unnoticed by local residents, or the local municipality.
- **Scorecard points and government recognition** – In South Africa, the Tourism Black Economic Empowerment (BEE) Scorecard, which is a system used to measure the BEE status and contributions of tourism enterprises to BEE indicates the scores points that will be awarded for enterprise development and affirmative procurement. Affirmative procurement is system of procurement which provides employment and business opportunities for marginalized individuals and communities, enables procurement to be used as an instrument of social policy in a fair, equitable, competitive, transparent and cost-effective manner and permits social objectives to be quantified, measured, verified and audited.

Constraints of local procurement

- **Lack of acceptable local suppliers and products** - The quality, quantity and reliability of local supplies may be inadequate – or may be perceived to be so by buyers.
- **Price** - Buying in bulk from established suppliers secures discounts, preferential servicing and other benefits. Interfering in these arrangements to shift to local supply can be difficult and costly.

- **Exclusionary procedures and policies** - Some tourism establishments have existing contracts that bind them to a particular supplier for a set period – and some are even contractually obliged to use the same supplier for new contracts.
- **Inertia and staff resistance to change** - When things are working well, employees get into a comfort zone, and it is hard to motivate for change.

The proudly South African campaign

Proudly South African Campaign was born out of socio-economic necessity to create jobs, under the leadership of the former South African President, Nelson Mandela. Through the National Economic Development and Labour Council (NEDLAC), the Proudly South African Campaign was launched in 2001 and supported by Government, Organised Business, Organised Labour and Organised Community.

The Proudly South African "buy local" campaign encourages the nation to buy local products and make use of local services, in an effort to stimulate the local economy and help create jobs. Proudly SA also promotes national pride, patriotism and social cohesion. These efforts may include promoting and showcasing local products and services so that the local, provincial and national economy can grow and avoid leakage.

When consumers buy locally produced products and support local service providers, the local economy is stimulated and sustainable job opportunities are created. By supporting local producers and manufacturers (by buying goods which carry the Proudly South African logo or a 'Made in South Africa' label) each and every South African can contribute towards creating a bigger demand for home grown products and services; stimulating South Africa's economic growth; helping to prevent job losses and helping to create job opportunities.

Study area

Each tourism region possesses unique characteristics regarding the role, importance, activity and the types of tourism accommodation available in the region. This study was based and concentrated on the region known as the Eden District Municipality (EDM). The EDM is located along the south-eastern coast of the Western Cape Province. It stretches roughly for 350 kilometres along the Indian Ocean, from the Bloukrans River in the east, to Wits and at the Breede river mouth in the west (see Figure 1). The Eden District Municipality covers the Kannaland, Mossel Bay, George, Oudtshoorn, Plettenberg Bay, Hessequa and Knysna local municipalities (EDM, 2011). The district municipalities administer and make rules for a district, which includes more than one local municipality.

The purpose of district municipalities and local municipalities is to share the responsibility for local government in their areas, as well as to ensure that all communities, particularly disadvantaged communities, have equal access to resources and services (EDM, 2011). This idea is of particular importance with reference to some local municipalities who do not have the capacity (finances, facilities, staff or knowledge) to provide services to their communities. It also helps to cut the costs of running a municipality by sharing resources with others. Therefore this study was only limited to selected guest houses in the Eden district region (EDM, 2011).

education. Neither of these methods is intrinsically better than the other; the suitability of which needs to be decided by the context, purpose and nature of the research study in question; in fact, sometimes one can be alternatives to the other depending on the kind of study (Bryman & Burgess, 1999: 45). Some researchers prefer to use a mixed methods approach by taking advantage of the differences between quantitative and qualitative methods, and combine these two methods for use in a single research project depending on the kind of study and its methodological foundation (Bryman & Burgess, 1999: 45).

This study was concerned with examining the contribution of guest houses to LED in the Eden District Municipality and to achieve this aim, the study adopted a quantitative method using a questionnaire which had both closed- and open- ended questions. The study was aimed at guest house owners, locums and managers in the Eden District Municipality and two hundred and fifty (250) guest houses were identified in the area. These guest houses were obtained from the Eden District Municipality database, the databases of Local Tourism Offices (LTO's) combined with a further search on the internet by the researcher. Due to the low number of identifiable guest houses, all the guest houses identified formed part of the study and therefore two hundred and fifty (250) questionnaires were e-mailed to those guest houses with a request to get these filled from the guest house owners, managers and locums. The self-administered questionnaire had a covering letter attached to it explaining the purpose of the study and why the respondent was chosen. First reminder was sent after 15 days of the first email and a second; a final remainder was e-mailed 10 days after the first remainder. The response rate from the e-mailed questionnaires was very low which affirms the opinion by Pechlaner et al. (2004), who stated that response rate from mailed/mailed questionnaires tend to be very low.

To counter the low response rate raised by Pechlaner et al. (2004), the researcher made a concession of asking the LTO's managers in the Eden District to distribute the questionnaires on his behalf. This was to ensure a high response rate as the guest house owners will feel more comfortable as the request will be coming from the office that they deal with on a more regular basis. Once again the response rate was very low from this attempt and the researcher then appointed five students to help with data collection through door to door visits. It was only after this that the response rate improved to allow for more than half of the returned questionnaires to ensure reliability and validity of the study as advised by the Nelson Mandela Metropolitan University (NMMU) statistician. 128 questionnaires were returned and constituted 51.2% of the total sample.

Results

Usage of locally-produced products by guest houses

This section provides the outcome of a question that asked guest houses about their usage of locally-produced products and the results are shown in table 1 below.

Table 1: Usage of locally produced products by guest houses

		Frequency	Percent
To a little extent	40	31.3	32.0
To a large extent	88	66.4	64.8
Total	128	97.7	100.0
Total		128	100.0

The results in Table 1 indicate that the majority of the guest houses are making use of locally-produced products. These results are a good indication of strengthening the local economy as money circulates within the various sectors of the economy locally. This is also serves as a

source of creating employment opportunities as money is not leaving the country through imports and the stronger the economy, the better the chances of employment creation opportunities. This finding is supported by George (2012: 332) who stated that “to further strengthen the local economy through usage of locally produced products; there should be an increase in local linkages”. The same author went further to suggest the following options to increase local linkages: procurement from the local enterprises, local employment and wages, and building local partnerships.

Input cost in sourcing locally-produced products by guest houses

This section provides the outcome of a question that asked guest houses how much they spend per month on locally-produced products and the results are shown in Table 2 below.

Table 2: Input cost in sourcing locally-produced products by guest houses

		Frequency	Percent
Valid	R5 000 - R10 000	89	69.5
	R10 001 - R20 000	32	25.0
	R20 001 - R30 000	4	3.1
	R30 001 - R50 000	3	2.3
	Total	128	97.7

The results in Table 2 show that the majority of the guest houses spend between R5 000 and R10 000 per month on locally-produced products whilst only a small number of guest houses spend R20 001 - R30 000 and between R30 001 - R50 000 respectively. These results show that there is good support between the different sectors of the economy in the Eden District Municipality. This relationship results in the creation of both direct and indirect employment in the tourism industry. This signifies the multiplier effect with the tourism industry and money circulates within the local economy which results in strengthening the possibilities of employment creation.

Correlation between input cost per month and rate of usage of locally- produced products

This section provides an analysis of a test that was done to establish the relationship between input cost per month and the rate of usage of locally produced products and the results are shown in Table 3 below.

Table 3: Correlation between usage and input cost for locally-produced products

Usage rate	Input cost in sourcing local products			Row
	R5 000 - R10 000	R10 001 - R20 000	R20 001 - R50 000	Totals
To a little extent	34	4	1	39
Row %	87.18%	10.26%	2.56%	
To a large extent	49	24	6	89
Row %	62.03%	30.38%	7.59%	
Totals	86	29	7	122
Chi-square	8.20	df=4	p=.08468	

The results to test whether there is any statistical difference between usage rate of local produced products and services against the input cost of sourcing such good and services

yielded a Chi-square of 8.20 with a degree of freedom at 4 and a P value of .08468 which is above the conventionally accepted level of .05. These results therefore infer that there is no significant relationship between the two variables. It therefore means that it is difficult to tell whether those who used locally-produced products to a large extent spend more money per month on locally-produced products as compared to those who use the locally produced products to a little extent.

Conclusion

The findings of this research clearly indicated that the guest houses in Eden District Municipality are contributing positively to LED through their use of locally produced products. This is supported by 64.8% of guest houses who use locally produced products to a large extent and 32% who use these locally produced products to a little extent with only 3.2% of guest houses who doesn't use locally produced products at all. Further to this in support of the above mentioned statement, 68.8% of these guest houses spend on average between R5 000.00 and R10 000.00 per month on locally produced products. This is important for the growth of the local economy as money is circulated within the local economy to the benefit of community members in employment opportunities. The managerial implication is that there is a need for boosting procurement from local enterprise perspective. Procurement is often a missed opportunity to engage with the local economy. Shifting to small local suppliers can entail initial disruption and administration at first, but it can result in more loyal suppliers, more distinctive or cheaper products, and make a huge difference to local enterprise. There are many practical ways for guest houses to help local suppliers to enter the supply chain: advertise procurement needs through new local networks (via local staff, church groups, and small business networks); break contracts into smaller chunks that are manageable for small businesses with less working capital and different tools; change payment terms (pay cash on delivery or within 15 days); provide advice on product requirements, standards and safety issues.

Managerial implications and recommendations

The managerial implication is that there is a need for boosting procurement from a local enterprise perspective. Procurement is often a missed opportunity to engage with the local economy. Shifting to small local suppliers can entail initial disruption and administration , but it can result in more loyal suppliers, more distinctive or cheaper products, and it can also make a huge difference to local enterprise . There are many practical ways for guest houses to help local suppliers to enter the supply chain: advertise procurement needs through new local networks (via local staff, church groups, and small business networks); break contracts into smaller chunks that are manageable for small businesses with less working capital and different tools; change payment terms (pay cash on delivery or within 15 days); provide advice on product requirements, standards and safety issues.

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