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Support interventions for tourism SMEs in the Eden District Municipality: Western Cape Province, South Africa

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Abstract

The National Development Plan (NDP) in South Africa sets out several ambitious goals for the small to medium enterprise (SME) sector including a target for 90% of employment opportunities to be created by this sector by the year 2030 and envisions the South African economy to grow by at least 5.4% growth per year over the next 15 years. Yet despite government's commitment to growing and supporting the country's SMEs, these firms continue to face an extremely hostile business environment, including lack of skilled staff, burdensome regulations, tough local economic conditions, lack of finance and the high costs associated with employing staff. The significant contribution of SMEs to local economic development in the locality of municipalities has been recognized, and therefore the prioritisation of small business support and development by local government has become a focal point of municipal local economic development programs. The main aim of this article is to determine whether the programs and interventions provided by Eden district municipality (EDM) meet the needs of SMEs that use tourism to access trade and economic opportunities. Only those SMEs which have been in operation for more than one year were considered for this study. The number of tourism SMEs registered in the EDM database were 175, and only 100 of them have been in operation for more than one year at the time when this research was undertaken. The results of the study indicate that 48.75% are not aware of any support program to tourism SMEs offered by the EDM and those that have received any kind of support, have received it in two areas, in the form of: access to markets and access to information. This was out of the ten programs that were on offer during the execution of this research.

Keywords: SMEs, tourism, Eden District Municipality, Western Cape Province, Challenges for SMEs

Introduction

The National Small Business Act, No. 102 of 1996 (South Africa 1996b) defines SMEs as "a separate and distinct business entity, including cooperative enterprises and non-governmental organizations managed by one owner or more individuals which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy which can be classified as a micro, very small, a small or a medium enterprise. Small medium and micro enterprises are defined in terms of their employee criteria. Enterprises with less than five employees are as regarded as micro, enterprises with five to twenty employees as very small, enterprises with twenty to fifty employees as small, and enterprises with fifty to two hundred employees as medium (Department of Provincial and Local Government (DPLG) 2005:21).

The Tourism Sector and SMEs in South Africa

Tourism is identified as one of the key drivers of the South African economy and also the global economy. Its economic benefits are such that it can be a significant catalyst for economic growth and employment. It is a source of much needed foreign exchange earnings, and it provides supplementary income for individuals seeking part-time employment. The tourism sector also increases the demand for other non-tourism businesses, brings expenditure from external sources into the local market, and encourages the upgrading and re-use of dilapidated land and buildings (Department of Tourism, 2009b:11).

As an industry, tourism has become one of the major contributors to job creation in the South African economy and the SADC region as such, and it is reported that approximately 485 060 individuals benefited from it through direct jobs in 2006 (Trade and Industry Chamber in Nieman, Visser and Van Wyk, 2008:284). It is predicted that this figure would increase to 1.2 million job opportunities by 2014 (Altman in Nieman, Visser and Van Wyk, 2008:284).

In 2012, the Department of Trade and Industry reported that SMEs contribute between 52% and 57% to the country's gross domestic product (GDP) and provide 61% of total employment, (Department of Trade and Industry 2012). Given the potential of SMEs to create jobs, especially within the tourism sector, the South African government invested in various support programs to enhance the ability of these businesses to become self-sustainable and to make a transition from the second to the first economy. Tourism has surpassed gold as the biggest foreign exchange earner and according to the Department of Trade and Industry in Nieman, Visser and Van Wyk (2008:283), the foreign exchange proceeds from the tourism sector in South Africa contributed 7 percent, or R100 billion, to the GDP and exceeded receipts from gold which were 5% in 2004.

The economic potential of this sector for the South African economy has made tourism development an imperative of national and provincial government programs over the past few years. The tourism industry holds considerable opportunities for small, medium and micro enterprises (SMEs) to tap into the supply side of tourism products and services in the tourism value chain. However, within these opportunities available within this lucrative industry, lies a challenge for government at all spheres, namely to facilitate access to business and trade opportunities and potential markets for SMEs (SMEs). In addition, government is faced with the challenge of providing the required skills development interventions and support programs that facilitate accessibility to the aforementioned, which will potentially contribute to the sustainability of these businesses.

Economic contribution of SMEs

Brand (2006:1), describes the distribution of economic development in South Africa as the combination of two economies in one country: the first economy and the second economy. *Die Burger* in Brand (2006:1) states that the first economy competes on a global level, as opposed to the localised level of the second economy. SMEs were found to be actively competing in the second economy with limited participation in the first economy.

According to Le Roux, also in Brand (2006:11), the composition of SMEs in terms of their contribution to the economy is as follows: The 2 million SMEs represent 98% of South Africa's total number of firms, employ 55% of the labour force, and contribute 42% of the country's wage bill. However, 87% of these SMEs are survivalists and operate outside the formal economy. Recent statistics indicate a growth in the number of SMEs in South Africa with 2.8 million SMEs which contribute between 52% and 57% of the country's GDP and provide 61% employment (Department of Trade and Industry 2012). These statistics demonstrate the potential of SMEs in terms of employment creation and the contribution of SMEs to the GDP.

Statistics from the Organisation for Economic Co-operation and Development, 1997: United National Conference on Trade and Development (2003), in Ladzani and Netswera (2009: 234), indicate the following contributions of SMEs to the GDP in other developing countries: in Brazil, 60.8% of GDP and 66.8% of employment; in Mexico, 40% of GDP and 80% of employment.

According to the Organisation of Islamic Cooperation (2011), SMEs represent a large share of registered businesses that contribute between 35 to 45% to the global GDP, and also represent an estimated 40 to 60% of global employment. This source reports that the contribution of SMEs to the GDP is as follows: in Malaysia – 56%; Egypt – 33%; and Saudi Arabia – 25%. These statistics substantiate the importance of SMEs in the economy, especially in developing countries. However, cognisance should be taken of the size of SMEs in other countries compared to that of SMEs of South Africa. As per the statistics on the contribution of SMEs to the economy, it may be argued that these businesses make a significant contribution to the job market. The overall contribution of SB to the economy may be regarded as small, but these enterprises make a significant contribution to employment creation as alluded to earlier. With this in mind, it becomes important to assess if the policy responses that are put in place through specific interventions and support programmes are aligned to the needs of the beneficiaries of such programmes.

Challenges faced by SMEs in South Africa

SMEs have to compete with established large businesses that monopolise the South African economy (Brand 2006:17). These established businesses have effective business operations, established relationships and contracts, and have the business and information technology infrastructures that allow them access to market intelligence and business opportunities. SMEs on the other hand do not have the same economies of scale and economic infrastructure, which makes it difficult for them to compete in the first economy and with larger enterprises in the same sector. Through the literature review, it therefore becomes imperative to establish what challenges SMEs experience which hinders their ability to compete with established businesses on a fair footing.

According to Balkenhol *et al*. in Brand (2006:17), SMEs experience challenges regarding the ability to take advantage of business opportunities, the registration of their businesses, and to penetrate highly competitive markets. These factors often become obstacles that hinder them from engaging in formal business interactions and the consolidation of business. Furthermore, a great amount of entrepreneurial drive is required to ensure the success of the business. A lack of entrepreneurial skills can thus become an obstacle because the success of the SMEs depends on the ability of its owner to take the initiative and full responsibility for the growth of its business.

Furthermore, according to Rogerson and Ntsika, in Elliot and Boshoff (2007:16), SMEs in the tourism sector cite the lack of access to markets as an obstacle to their growth; studies conducted in South Africa and internationally on market access identify market access as a "critical factor" for business growth. Hence, market access may therefore also be an inhibiting factor in the growth of local Tourism SMEs in the Eden District. Literature highlights the following as elements that impede access to markets for SMEs: access to finance, marketing and information, a lack of market intelligence, of business skills and infrastructural challenges.

Access to finance

Access to finance is regarded as a critically important factor that determines the growth of SMEs. Balkenhol *et al*. in Brand (2006:14) report that the results from an analysis of SMEs in South Africa indicate that access to funds is a constraint that hinders them from either

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establishing or expanding their businesses. Statistics South Africa reports that 60% of non-VAT-registered businesses (approximately 1,4 million of a total of 2,3 million non-VAT registered businesses) requiring additional money to start their businesses, only 15,5% were successful in acquiring loans and of this percentage only 5,1% received loans from banks" (Brand 2006:14). This research also revealed that the SMEs that did not obtain loans from commercial banks borrowed money from relatives, friends, and community savings arrangements (Brand 2006: 14).

Marketing resources

In 2003, a survey was conducted amongst tourism SMEs in the Free State that focused on the profile of tourism entrepreneurs as well as issues that the tourism SMEs were confronted with (Rogerson 2005:632). The findings revealed that marketing was top of the issues identified by established entrepreneurs, with specific reference to the quality and volume of tourism marketing at national and provincial levels (Rogerson 2005:643). The concerns of the smaller entrepreneurs related more to the state of official marketing, and the costs involved should they embark on their own marketing, considered to be a very costly exercise. In a survey conducted amongst tour operators in Soweto in 2005, 50% of emerging tour operators identified access to finance sources, access to markets, and marketing support as major constraints to the growth of their enterprises (Nemasetoni and Rogerson 2005:205). Tour operators in Soweto revealed that the marketing of their businesses both individually and collectively was and remains an area of concern (Rogerson 2009:345). According to Rogerson (2009: 345), marketing refers to, *inter-alia*, knowledge and exposure to new market trends and how the tourism marketing process evolves with particular reference to information technology and the internet.

Access to information

Access to information is one of the factors that contribute to accessing trade and economic opportunities. Research conducted by Rogerson (2005:633) highlights the frustrations of entrepreneurs to access support through national government led programmes, which are often attributed to a lack of access to required information. This may be overcome through resources such as the internet, which, according to Bourgouin (2002:197) provides access to a broad spectrum of sources of information, support networks and worldwide marketing channels, providing opportunities to conduct electronic commerce. However, not all Tourism SMEs have the business acumen and resources to conduct internet marketing as a medium to market their products or services. Elliot and Boshoff (2007:16) suggest that the internet is becoming an effective tool for SMEs to overcome their marketing challenges and to access new markets.

Lack of market intelligence

A lack of market intelligence, market trends and knowledge in terms of the needs and expectations of the market also becomes a constraint to trade and economic opportunities (Forstner, 2004:501). It can be argued that this is a constraint to Tourism SMEs, irrespective of whether they are situated in a rural or urban area. Kirsten and Rogerson (2002:54) state that emerging entrepreneurs should be provided with support in terms of access to finance, information, and training in the absence of formalised business linkages. These authors further state that the research conducted indicates that the needs of the emerging entrepreneurs are not completely met by the support structures provided for small enterprise development. Kirsten and Rogerson (2002:54) suggest that opportunities for SMEs in the tourism sector are vested in cost reduction and from programmes driven by government intervention. They are of the opinion that in the absence of government intervention we would not see the introduction of programmes that are beneficial to SMEs. A success story in this regard is the affirmative procurement programme by Sun International, a resort hotel chain and casino destination in South Africa: it used its contractors to create opportunities for SMEs.

Lack of business skills

According to Balkenhol *et al*. in Brand (2006:14), a lack of experience in the management of a business impacts on the ability of a SB and an entrepreneur to manage their businesses successfully. This results in the failure of many emerging SMEs, and also becomes a determining factor in their ability to tap into markets. According to Brand (2006:15) business skills that are required include marketing, business management, financial management and personnel management.

Infrastructural challenges

The management of a successful service business necessitates that certain infrastructural elements are available to make it operationally functional in order to provide a service to clients and to attract potential clients. Brand (2006:15) identifies these essential or general services as “electricity, telephone, water and sanitation. In the absence of communication media, for example, telephone lines, fax facilities, email and information technology (the internet), SMEs will have difficulty in communicating with their suppliers and customers, and vice versa. This often results in ineffective business processes. These services are essential for the existence of a SB and its ability to effectively stay in touch with potential markets. According to statistics provided by Statistics South Africa in 2002 as cited in Brand (2006:16), only 166 000 (7.3%) of non-VAT-registered business owners obtained any license to operate their businesses. Lehohla in Brand (2006:16) contends this is the reason why the majority of small and micro businesses are not registered with authorities, namely, municipalities or regional councils. The lack of adequate communication services is one of the reasons why SMEs do not register their businesses and this in turn then becomes an obstacle for them to conduct business in the first economy. Infrastructure is an area of intervention where local government can provide considerable support given the fact that it is responsible for maintaining soft and hard infrastructure in terms of its tourism legislative mandate.

Problem investigated

The main aim of this research was to determine whether the programs and interventions provided by the EDM meet the needs of SMEs that use tourism to access trade and economic opportunities in the Eden district municipality so that the district municipality can ascertain which programs and interventions are used so these SMEs can contribute to local economic development.

Methodology

According to Altinay and Paraskevas (2008) surveys are commonly used for collecting data as far as the SMEs are concerned. For purposes of this research, a descriptive survey was conducted. According to Altinay & Paraskevas (2008), descriptive surveys are concerned with particular characteristics of a specific population and are predominantly used to gather information about what people do or think. In terms of this research this strategy proved the most useful to determine how tourism SMEs view the interventions provided for them by the EDM. The target population was the tourism SMEs in the EDM area that have been in existence for more than one year. These tourism SMEs were sourced from the EDM database and were verified by the local tourism offices (LTOs) and the B Municipalities that falls under the EDM region. The number of tourism SMEs registered in the EDM database were 175 and only 100 of them have been in operation for more than one year at the time when this research was undertaken.

Questionnaires were sent to all 100 respondents, and only 80 of these questionnaires were received back which represents an 80% response rate. The tourism SMEs were first contacted telephonically to ask them if they would be willing to participate in the survey. The ten programs included in the questionnaire which were operated by the municipality at the time of research were: access to markets, training /skills development, access to funding /finance, access to information, product development, access to market intelligence, business skills training, access to information, partnership linkages with established businesses, business incubator, mentorship programmes and export development.

Results

Table 1: Awareness of support programs offered by EDM

Type of program offered	Count	Percentage
Access to markets	19	23.75
Access to information	22	27.50
None	30	48.75
Missing	0	0.00

Table 1 above show the results of the tourism SMEs owner's awareness of the various programs offered by the EDM. The results infer that 27.50% of the owners were aware of the access to information program, 23.75% were aware of the access to markets whilst 48.75% which is the majority, were not aware of any support program offered by the EDM. Interestingly, there were ten programs in the questionnaire which EDM was providing support for during the time of the research and they were: access to markets, training /skills development, access to funding /finance, access to information, product development, access to market intelligence, business skills training, access to information, partnership linkages with established businesses, business incubator, mentorship programmes and export development.

This finding may infer that the communication mediums used to raise awareness to tourism SMEs owners may have not been effective. This may imply that EDM needs to find other alternative communication mediums to reach out to tourism SMEs in order for the businesses to know the support programs on offer.

Table 2: Select the type of assistance received from EDM.

Type of assistance received	Count	Percentage
Access to markets	19	23.75
Access to information	22	27.50
None	30	48.75
Missing	0	0.00

Table 2 above indicates those that have received and those that have not received assistance from EDM. The results infer that 48.75% of the tourism SMEs owners have not received any type of support from the EDM. This number of tourism SMEs owners are the very same who were not aware of any type of support program offered by the EDM as reflected in table 1. Interestingly also is the fact that out of the ten support programs mentioned in the discussion of table 1, only two programs, namely access to markets and access to information, have been used by the tourism SMEs owners. These results may also infer that more still needs to be done by the EDM if they want more tourism SMEs to benefit from the support programs they offer.

Table 3: Rate the type of assistance received from the EDM

Rating of assistance received	Count	Percentage
None received	39	48.75
Average	16	20.00
Good	14	17.50
Very good	11	13.75
Missing	0	0.00

It was also important to find out from the 51.25% who have received support from the EDM to assess how they rate the assistance received. Table 3 above indicates that 20% of those who received the assistance rated it as being average which was the highest, followed by 17.50% that rated the assistance good, whilst 13.75% rated the assistance received as being very good. These results infer that EDM is doing a relatively good job while providing assistance to tourism SMEs as none of those who received the support rated it as being poor or even very poor.

However, these results may not be accurate as many participants (48.75%) nearly half of the participants in the survey have not received or are even aware of these support programs. The picture projected above could have been different if all the surveyed participants have had some kind of experience with the support provided by the EDM. These results may also imply that the EDM should continue with the same standards they have adopted for those who have been assisted as it seem to have worked for them as they continue to create more awareness of the other support programs on offer.

Table 4: In which areas do you still require support for your small business?

Areas where support is still required	Count	Percentage
Access to markets intelligence	23	28.75
Access to funding/finance	28	35.00
Business skills training	29	36.25
Missing	0	0.00

Participants in the survey were also asked about the kind of support their SMEs still requires. Table 4 shows the results in this regard. Out of the ten support programs outlined under table 1, only three of them were selected by the participants. The highest support still required by the tourism SMEs is business skills training ranked at 36.25%, closely followed by access to funding/finance ranked at 35% and access to markets which was ranked at 28.75%.

These results may infer that many owners of tourism SMEs owners see these support programs as critical to the success and sustainability of the businesses as compared to the other support programs, namely: training /skills development, access to information, product development, access to market intelligence, access to information, partnership linkages with established businesses, business incubator, mentorship programmes and export development. These results may also infer that the EDM should focus more on strengthening support around these three support intervention programs as they seem to be the most desired by the tourism SMEs owners.

Table 5: Attendance to workshops to access programmes in support of SMEs and the development of tourism strategies by the EDM?

Attendance to platforms	Count	Percentage
Yes	41	51.25
No	39	48.75
Missing	0	0.00

Given the high number of participants who were not aware of the support intervention programs offered by the EDM, it was necessary to establish how many tourism SMEs owners have attended the workshops where information is provided about these support intervention programs and how to access them effectively.

Table 5 above show that the majority, 51.25% have attended the workshops and given the analysis in the previous sections, these are the business owners who have received some kind of support from the EDM, whilst 48.75% have not attended the workshops and in the same vein, these are the business owners who were not aware of the existing support intervention programs and who have not received any kind of assistance from the municipality.

Table 6: Type of assistance by rate support

Type of assistance	Average	Good	Very good	Row totals
Access to markets	4	9	6	19
Row %	21.05%	47.37%	31.58%	
Access to information	7	8	7	22
Row %	31.82%	36.36%	31.82%	
Totals	**11**	**17**	**13**	**41**
Chi-square	0.74 df=2		p=.69130 (Not significant)	

It was also important to compare the different variables to see whether there were significant differences in the chosen factors. A test was conducted to determine whether those that received assistance rated the assistance differently. The results in table 6 yielded a degree of freedom at 2 with the chi square statistic of 0.74 and a p-value of .69130. The p-value of .69130 is above the conventionally accepted significant level (.05), it meant that there were no statistical significant differences on the views of those who were assisted with access to markets, and those assisted with access to information.

The result of the Chi-square test is not significant and therefore there is no sufficient evidence to justify that those assisted with access to markets have rated the support received differently from those who received support for access to information.

Table 7: Type of assistance by area of support required

Type of assistance	Access to markets intelligence	Access to funding	Business skills training	Row totals
Access to markets	2	10	7	19
Row %	10.53%	52.63%	36.84%	
Access to information	8	5	9	22
Row %	36.36%	22.73%	40.91%	
None	13	13	13	39
Row%	33.33%	33.33%	33.33%	
Totals	**23**	**28**	**29**	**80**
Chi-square 5.81 df=4 p=.21350 (Not significant)				

It was also important to determine the statistical difference in the type of assistance received by the area where support is still required. The results in table 7 above yielded a degree of freedom at 4 with the Chi-square at 5.81 and the p-value of .21350. The results of the Chi-square test resulted in a non-significant statistical difference, which means there is insufficient evidence to indicate that those who were assisted with access to markets will require a different area of further support from those who were assisted with access to information. It therefore suggests that those assisted with access to markets and those with access to information are equally likely to require further assistance with access to market intelligence, access to funding and business skills training.

Conclusions

The findings of this research clearly indicate that the EDM has a role to play in creating awareness about the support programs available for tourism SMEs. This is supported by 48.75% of tourism SMEs owners in the tourism industry who are not aware of any support program for small business offered by the EDM. If SMEs are to overcome the challenges they face, that were discussed in the literature review section, then they need to have access to the different support programs available to them. The findings indicated that out of ten programs available for support for SMEs, only two of those, were used by the tourism SMEs owners and these were used by relatively small numbers. The following areas of support were highlighted as the areas were support is still required (access to market intelligence, access to funding/finance and business skills training) even by those who have not heard about these support programs offered by the Eden District Municipality.

Managerial implications and recommendations

The findings of the research elicit a negative response to the research question: Do the programs and interventions provided by the EDM meet the needs of SMEs that use tourism to access trade and economic opportunities? The answer is a simple ‘no’! It is therefore recommended on the basis of the finding of the study, that EDM should raise more awareness about support programs available for SMEs. One way to do this is through road shows in all the local municipalities that falls under their domain. The road shows should be performed at the beginning of each financial year, and can be conducted in conjunction with the local municipalities, LTOs, knowledge partners and role players. Another recommendation is for workshops to be held with SMEs in each local municipality in the district, also called (B municipalities) to ascertain the areas in which they require support. This will ensure that programme interventions accurately address the specific needs of the SMEs. It may also be concluded as part of the tourism strategy review process. Another recommendation that can lead to an increase in awareness of the support interventions offered by the EDM could be public participation in tourism strategies development. The participation and involvement of SMEs in tourism strategy development should be enhanced. SMEs should form part of the consultation process to ensure that strategies promote SB development and reflect their needs and priorities.

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