Business incubation for tourism SMME development: 
International and South African experience

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Abstract

In terms of SMME development support programmes there is an increasing international focus on business incubation. Although its definition is contested the essence of business incubation is enhancing the survival of growth-oriented early-stage enterprises. Traditionally, the sectoral focus of business incubation has been upon ICT enterprises, high-tech, manufacturing and even agribusinesses. Service-sector enterprises have emerged in some countries as a new focus for business incubation. It is observed that alongside cultural and creative industries that business incubation is extended into the tourism sector. Business incubation is therefore an additional tool for tourism SMME support. Currently, most tourism business incubators are found in USA and Europe. In South Africa, however, there has occurred the launch of dedicated business incubators to support tourism entrepreneurs. These initiatives for tourism SMME support merit further scholarly attention.

Keywords: SMME development, business incubation, tourism business incubators, South Africa

Introduction

Over the next decades, the job creation challenge facing countries in sub-Saharan Africa is immense as the labour absorptive performance of large enterprises fails abjectly to address the requirements of the continent’s expanding workforce (McKinsey Global Institute, 2012). Accordingly, it is acknowledged that fostering a thriving small, medium and micro-enterprise (SMME) economy is critical for employment expansion across sub-Saharan Africa. In the international environment of SMME development policy interventions, business incubators are viewed as part of an array of policy support measures that increasingly are deployed to assist the SMME economy (Albert-Morant & Ribiero-Soriano, 2016). The fostering of a cohort of innovative SMMEs is seen as critical for the progress of economic and social development across sub-Saharan Africa with incubators considered as an integral component of an innovation and entrepreneurship ecosystem (Henricson Briggs, 2016; InfoDev, 2006; Kiraka, 2009; Wachira et al., 2017). Indeed, within a fluid policy landscape of interventions that integrate innovation and entrepreneurship the recent new focus on business incubation in sub-Saharan Africa is particularly significant because of its special remit for enhancing the survival of growth-oriented early-stage enterprises (Rogerson, 2016).

In South Africa one of the most established policy commitments of national government since 1994 has been support for developing and upgrading the SMME economy (Rogerson, 2008a). This said, despite government commitments and increased support for the sector the impacts of policy interventions for local SMMEs have proven disappointing (Rogerson, 2004a). Of special concern has been that the South African SMME economy continues to
experience high mortality rates such that it is failing as a whole to grow sufficiently to create the expected and urgently needed employment opportunities. Paralleling international trends South Africa has introduced a number of initiatives to strengthen the SMME economy including programme support for small business incubators (SEDA, 2015). In what is a chequered history around business incubation for South Africa the policy intervention of the Department of Trade and Industry (DTI) was vital in recognising business incubation as a viable tool to help SMMEs grow and become successful (DTI, 2013). Currently, however, the most important institutional actor in South Africa for the promotion of business incubation is the Small Enterprise Development Agency (SEDA) which is part of the recently established Ministry of Small Business Development in South Africa. Aspects of the successes and failures of these small business incubation programmes have been investigated by a number of researchers (Business Partners, 2016; Lose & Tengbeh, 2015; Lose et al. 2016; Masutha & Rogerson 2014a, 2014b, 2015; Rogerson, 2016; Sandheep & Thomas, 2011).

The objective in this paper is to examine recent policy initiatives – international and in South Africa – to extend the concept of business incubation to the tourism sector. Although a number of research papers have appeared to examine the challenges facing tourism SMMEs and policy support initiatives as applied in South Africa the question of business incubation has not attracted so far the attention of tourism scholars. Overall, the paper must be viewed as offering fresh insight into policy and practitioner debates around supporting tourism SMMEs in South Africa (Rogerson, 2004b, 2005, 2007, 2008b). As an economic sector, one of the most distinctive features of tourism is the overwhelming dominance of small-scale entrepreneurship (Thomas, 1998, 2000, 2004). At the global scale the tourism sector is dominated massively by SMMEs (Ateljevic & Doorne, 2007; Buhalis & Peters, 2006). In South Africa the importance of the tourism SMME economy is that it represents at least 95 percent (if not more) of all tourism enterprises in the country (Rogerson, 2005, 2007). The paper is structured in terms of two major sections of discussion. The first section introduces and reviews key themes in international (and South African) policy debates concerning business incubation. Attention then turns in the second section to the application of business incubation into the tourism sector internationally and then to the case of South Africa.

Business Incubation: International Debates and Evolution

Although there is a considerable amount of international writings about business incubation it remains that there is “definitional incongruence” surrounding the concept (Theodorakopoulos et al., 2014: 614). This said the essential rationale for the establishment of incubators is a response to the high mortality and poor survival rates of SMMEs during their early stages of business development (Al-Mubaraki & Busler, 2010; InfoDev, 2010a, 2010b, 2010c, 2010d, 2010e, 2016). Indeed, Ayatse et al. (2017: 4) consider that business incubation represents “a unique institutional arrangement that is primarily concerned with developing entrepreneurial culture in a community”. Arguably, business incubation has evolved over time both as a concept and practice for small business support, (Grimaldi & Grandi, 2005). Nevertheless, it remains that business incubation is often interpreted differently by various scholars (Aernoudt, 2004; Akcomak, 2009; Al-Mubaraki & Busler, 2010; Ayatse et al., 2017). This has resulted in the “lack of an unambiguous practical demarcation and of conceptual clearness” around the concept (Romein & Trip, 2017: 436).

Among several researchers there is agreement that business incubators can be “businesses themselves” (Romein & Trip, 2017: 435) and that a business incubator can be an organization that provides various targeted business support and technical support services aimed at growing emerging and small start-up business enterprises into financially and
operationally independent enterprises (Adegbite, 2001; Adkins, 2009; Akcomak, 2009; InfoDev, 2006, 2010a). In several countries business incubators are considered a central foundation for the making of an innovation-based economy (Lalkaka, 2002; InfoDev, 2010d, 2010e, 2014). Ayete et al. (2017: 4) argue as follows:

“The concept of business incubation is founded on the premise of increasing the survival and growth of firms by developing mechanisms that will ensure the early identification of those firms that have great potentials for success but are constrained by resources. The concept ensures that firms overcome what is called the liability of newness and the liability of smallness thereby creating innovative firms that are competitive profitable and sustainable”.

The World Bank’s Information for Development (InfoDev) programme uses the following definition to frame its operations:

“InfoDev recognizes business incubation as a process aimed at supporting the development and scaling of growth-oriented early-stage enterprises. The process provides entrepreneurs with an enabling environment at the start-up stage of enterprise development. This environment should help reduce the cost of launching the enterprise, increase the confidence and capacity of the entrepreneur and link the entrepreneur to resources required to start and scale a competitive enterprise” (InfoDev, 2014: 8).

Finally, another valuable working definition is offered by Romein & Trip (2017: 440) that:

“Basically, business incubators provide a dedicated and supportive environment for start-up companies to be founded; to be nurtured in order (to) survive their infancy when they are particularly vulnerable; and to grow into a new firm that can stand on its own feet in the business world outside the incubator”.

There is consensus that business incubation was first launched in Western Europe and North America. Subsequently the concept spread or ‘travelled’ to developing countries where it has been embraced as part of frameworks for stimulating innovation, entrepreneurship and business development (Al-Mubaraki & Busler, 2010, 2012, 2014; Al-Mubaraki et al., 2013; InfoDev, 2010d, 2010e, 2016; Lalkaka, 2003; Theodorakopoulos et al., 2014). Business incubators must be seen as a complement to other support interventions for assisting the upgrading of the SMME economy. According to Adegbite (2001) and InfoDev (2016) the services offered by business incubators to clients include: administrative services, business advice services, training programmes, technical support services, facilitating access to finance; and, networking opportunities and marketing (Adegbite, 2001). Overall, most business incubation programmes involve the provision of affordable work spaces with shared facilities, training and mentorship programmes to improve start-ups’ entrepreneurial and management skills and seek to build up social business networks of start-ups who work within the premises (Hackett & Dilts, 2004; Romein & Trip, 2017; Theodorakopoulos et al. 2014). A more recent trend is that in many countries the support for virtual incubators as opposed to physical incubators (InfoDev, 2011a). Behind the growing popularity of virtual incubation programmes or for preferring ‘incubators without walls’ is that they are less costly than residential business incubators that have added expenses surrounding the operation and management of a physical space.

As is argued elsewhere business incubation has been adopted and supported for varying reasons in different contexts (InfoDev, 2014a, 2016; Rogerson, 2016). National (and local) governments have embraced and supported business incubation within various developmental contexts and in response to different challenges. Although the reasons behind the establishment of business incubators appear similar, often each nation has specific priorities which respond to country-specific challenges (Caiazza, 2014). The most
common motivations for governments supporting business incubator programmes concern employment creation, poverty alleviation, innovation and technology transfer, acceleration of business growth, reduction of the mortality rate of SMMEs, empowerment of specific groups of entrepreneurs, creating value for various stakeholders, urban/rural regeneration, and the revitalization of local economies (Albert-Morant & Ribiero-Soriano, 2016; Gerlach & Brem, 2015). In addition to the direct impacts of business incubators upon job creation, enterprise development and local economic revival business incubators can be also “important change agents in the innovation and entrepreneurship ecosystem” (InfoDev, 2011b: 1).

From a public policy perspective the case for public investment in the start-up of business incubators is justified on three grounds. Effective business incubation yields economic development returns and from a government budget perspective there is evidence that government contributions towards business incubation can be repaid through new tax revenues from the jobs and businesses that are nurtured (Khalil & Olafsen 2010). In addition, there is a mounting body of evidence to show that the incubation process improves firm performance (Ayatse et al. 2017). This said, it is essential that the business incubator model which evolved out of North America and Europe must be adapted to the circumstances and business environment of the developing world (Chandra & Fealey, 2009; Henricson Briggs, 2016). Brazil is often described as operating one of the most successful business incubation movements in the developing world because of both its innovative character and adaptation of incubator models to suit local conditions (Chandra, 2007, 2012; InfoDev, 2010b; Rogerson, 2016). It is notable also that the pattern of Brazilian business incubators is of a much broader and diversified range of incubators and operation of different incubator models than is the case for much of the rest of the world (Chandra & Fealey, 2009). Most importantly, the Brazilian experience of business incubation has moved beyond that of much of the rest of the world by its variety and complexity, an innovative adaptation of incubators to specific local needs and circumstances (Rogerson, 2016).

In South Africa the works of Infodev (2010c), Lose & Tengbeh (2015), Masutha & Rogerson (2014a, 2014b, 2015), Lose et al. (2016) and Rogerson (2016) provide a review of the emergence and development of business incubation programmes to support SMME development objectives in the country. As Lose et al. (2016: 131) observe the concept of business incubators in South Africa is “still developing”. Different forms of business incubation programmes have been applied in South Africa going back to the early 1990s with the establishment of business hives and through the early 2000s with the shift in focus to accelerating access to technologies and technical support for small enterprises, to improve small enterprise competitiveness; and, to reduce small enterprise failure rates (InfoDev, 2010c: 18). The most recent phase in the evolution of business incubators in South Africa is a part of national government SMME programmes initiated in 2012. During 2012 the Department of Trade and Industry (DTI) launched the Incubation Support Programme (ISP) which re-affirmed the government’s long-term commitment to business incubation as a vehicle to create sustainable enterprises (Masutha & Rogerson, 2015; Rogerson, 2016). The key driver of the expansion of a network of public sector business incubators has been SEDA. Significantly, in terms of the sectoral focus of the SEDA programme the core emphasis traditionally has been upon supporting sector-specific forms of incubators, mostly linked to manufacturing activities but with others in ICT, construction, and agriculture (Masutha & Rogerson, 2014a, 2014b).

In the 25 years of various initiatives around business incubator development in South Africa almost no attention has been given to the role of business incubation and business incubators to support tourism SMME development. This said there are signals of change in the policy environment with a new embrace of diversity in the development of a network of national business incubators in South Africa, including for tourism (Breytenbach, 2016).
Although progress has been made in the appearance of different incubator models further diversification is needed in the range of business incubators that receive support. It has been argued that a need exists to shift the narrative and policy attention beyond associating incubators in South Africa only with agriculture, manufacturing, ICT or construction. Instead, it is stressed that local policy-makers involved with business incubation for SMME development should seek to establish a new wave of business incubators for service sector enterprises, including for tourism enterprises (Rogerson, 2016).

**Business Incubation and Business Incubators for Tourism SMME development**

In the global North business incubation has concentrated mainly upon its application to high-tech activities. Accordingly, it has been observed that “a significant gap in the application of the incubation model to industries other than the high tech is evident” (Serup & Moscovis, 2012: 6). Over the past decade, however, there has been a growing movement towards the application of the concept of business incubation to service sector activities. This has taken place against the background of a growing acknowledgement of the significance of innovation in services and correspondingly of the rising significance of services in national economies. Indeed, service sector activities are regarded as central to the growth of knowledge-based economies. Although the potential of establishing service sector business incubators has occurred in a range of contexts the two service sectors that have attracted most attention are those of cultural/creative industries and tourism.

The category of cultural incubator has been acknowledged by InfoDev (2016: 3) as one of a range of new and different foci for incubators. For the past two decades creative industries have been seen as a lever for economic growth in the knowledge economy and a vital catalyst for urban economic growth and regeneration (Flew, 2013; Flew & Cunningham, 2010). It is within this context that the relevance is acknowledged of innovating different forms of business incubator in relation to the specific requirements of creative entrepreneurs (Romein & Trip, 2017).

In some recent works the differential characteristics between cultural industries and high-tech industries are recognised as the basis of re-making an alternative business incubation approach to account for these issues and that might be applicable to the start-up and growth phase of SMMEs engaged in cultural/creative industries. Using the Danish experience Serup & Moscovis (2012) suggest best practices for operationalising business incubators for the creative economy. It is stressed that whilst there are some similarities between creative industries and high tech in terms of demand uncertainty, short product cycle and the necessity for innovation and creative inspiration there remain fundamental differences. There are several key observed differences. First, whereas the driver for high tech is scientific innovation, for creative industries it is creative expression. Second, geographically creative industries are highly distinctive in terms of preferring their businesses in urban centres and often gentrified urban spaces (Serup & Moscovis, 2012; Romein & Trip, 2017). Three, whereas high tech SMMEs are highly regulated rigid flexibility is the norm for creative industries. Romein & Trip (2017) stress the vital role of business incubators in the development of sustainable clusters of cultural and creative industries. The emphasis is upon the potential of business incubators to support the innovativeness of clusters of such activities. These authors usefully draw attention to the strong support that can be given by incubators – often located in inner city spaces – to start-up creative entrepreneurs which typically confront the business issues of small size and unstable revenues.

As is evidenced above there is an international movement towards reconfiguring the traditional business incubator model to encompass the specific needs of creative industry entrepreneurs. In a similar fashion there is a parallel trend towards considering the specific needs of tourism business entrepreneurs. This new direction in business incubators is given impetus by the vital importance of tourism as a sectoral driver in the global economy and
particularly for those countries and regions where deindustrialization has witnessed a shift towards restructured economies in which tourism assumes now a major role. This said, the depth of policy and practitioner debates around tourism business incubators is not as advanced as for cultural/creative industries incubators. However, in certain countries and regions there is mounting interest in the potential of using business incubators to assist tourism-led development for particular kinds of tourism businesses.

During the early 2000s the US-based George Washington University and Conservation International evolved a tool to guide the development of an ecotourism incubator. The essential objective of this incubator, according to Hawkins (2004: 237), “is to promote the creation and/or strengthening of strategic new businesses in the area of ecotourism and related industries”. The specific goal was to initiate a pilot model for incubators in ecotourism that might subsequently be rolled out to other rural areas and protected areas. A further initiative in the United States was the proposal for a parallel pilot incubator concerning nature tourism-related entrepreneurial development in the Sinnemahoning State Park of Pennsylvania (Fermata Inc., 2004). It was stated that this proposed pilot incubator “would offer skills training in nature-tourism related activities such as hospitality and backcountry safety and provide a loan fund for development” (Fermata Inc. 2004: 1). Consideration was given to the benefits and potential of initiating a physical incubator as well as a virtual incubator. European researchers argue that in rural peripheral areas business incubators can assume a significant role in enabling entrepreneurship in the communities they serve. Indeed, it is stressed that the “business incubator can be used for various objectives within the tourism sector, shaping it in a different way to support the specific needs of a region, branch (of tourism) or even entrepreneurship category” (Schiopu et al., 2015: 480). The potential use of virtual as well as residential or physical incubators for tourism development in peripheral regions is highlighted as potential good practice (Schiopu et al., 2015). Finally, in terms of rural tourism development it should be understood that business incubators can support the tourism sector through non-tourism incubators such as agribusiness or construction incubators which can strengthen the supply chain of tourism enterprises (InfoDev, 2011b).

Beyond rural areas it is suggested that incubators may be applied as a tool for tourism business development in cities where the tourism sector may be the key lead sector for urban economic development. In urban tourism the best practice for tourism business incubators is currently that of the Welcome City Lab which is located in Paris. The Welcome City Lab is described as “an innovation platform dedicated to tourism” with its mission as “to position Paris as the innovation leader in urban tourism” (French Tech Ticket, 2017). The 1000sq metre site incorporates an open plan space for collaboration and conference rooms for the 30 selected incubatee entrepreneurs. In addition the Welcome Lab start-ups can use an experimentation area and a monitoring unit, which are seen as highly distinctive features for a dedicated tourism business incubator (French Ministry of Foreign Affairs and International Development, 2016).

On available evidence tourism business incubators are seemingly a phenomenon only of the global North. Despite the critical importance of tourism for economies in the global South an internet-mediated search disclosed no functioning examples of tourism business incubators in emerging regions of the global tourism economy. It is within this context of the limited spread of tourism business incubators that the recent interest of South Africa in the application of business incubators in tourism is of wider significance. As the (historically) major government-backed implementation agency for tourism SMME support in South Africa the Tourism Enterprise Partnership (TEP) took on the responsibility for expanding its suite of existing SMME support measures for tourism business development to include business incubation. During 2015 the first tourism business incubator was introduced as a physical
incubator in Johannesburg by the Tourism Enterprise Partnership offering support to 16 entrepreneurs with workstations and mentorship support; the first cohort of graduates from this incubator occurred in 2016 (Bizmag, 2016). In the international context of support for tourism business development TEP is an unusual and innovative institution in two respects (Rogerson, 2007). First, it is a dedicated institution for the supporting the development of tourism SMMEs within the context of an expanding tourism economy that was in need of changing its (racial) ownership complexion. Second, it represents an important break from the existing style of SMME support on offer in South Africa since 1995 in which the focus of SMME support was upon generic packages of assistance rather than tailored support for the needs of enterprises in different sectors of the economy. Until TEP was introduced in 2000 there was no meaningful support programme in South Africa that focused specifically on tourism SMMEs (Rogerson, 2013). Notwithstanding TEP’s record of positive achievements for tourism small enterprise support in South Africa, during early 2016 the National Department of Tourism discontinued its long-term partnership with TEP (Parliamentary Monitoring Group, 2016).

During the 2016 budget vote introduced by the Minister of Tourism the interest of national government in extending business incubation to tourism was signalled. The Minister indicated that the existing package of support measures to tourism SMMEs would be expanded through business incubation initiatives supported now by SEDA (Republic of South Africa, 2016a). Important criteria for enterprises to be admitted to the incubator, however, are that they must be a member of a local tourism association and that the business owner had run the existing business for “at least 1 to 2 years” (Parliamentary Monitoring Group, 2016). The two provinces of North West and Mpumalanga are the initial geographical focus for the launch of tourism dedicated business incubators at Pilanesberg in Moses Kotane Local Municipality, North West province and at Manyeleti in Bushbuckridge Local Municipality. The justification given by national government for the selection of these two particular locations for rolling out business incubators was that they were both “thriving tourism destinations” with clusters of tourism enterprises (Republic of South Africa, 2016b). Of note also is that both locations fall within the designated distressed areas of South Africa that national government is seeking to target for economic and social upliftment (Rogerson & Nel, 2016). The first operations of these tourism business incubators occurred in late 2016 following a period of engagement with local stakeholders in the tourism clusters. In North West the Pilanesberg incubator is described as “a virtual vehicle used to facilitate the provision of business support interventions to tourism enterprises” and focused on viable SMMEs at the selected tourism nodes (Republic of South Africa, 2016c).

Conclusion

In a survey of the international context of assistance for SMME development Albort-Morant & Ogbazi (2016: 2125) observe that “novel forms” of support are emerging for new entrepreneurs, including the activity of business incubation. It is apparent that business incubators are viewed as a cost-effective instrument for entrepreneurial support which have been demonstrated to have important and positive impacts for the rates of new firm survival (Al-Mubarak & Busler, 2010, 2014; Albort-Morant & Ribierio-Soriano, 2016; Ayatse et al., 2017; Romein & Trip, 2017). Arguably, it can be said that in contemporary society “business incubation is regarded as an important tool that has the capacity to support businesses to survive and grow” (Ayate, et al., 2017). Indeed, the international record shows that incubators “are major actors in the entrepreneurial ecosystem by linking talent, technology, capital and knowhow” (Ayatse et al., 2017:4).
An observed global trend is for the shifting and widening sectoral application of business incubation beyond the usual focus on technology, ICT and advanced manufacturing and instead to consider its use to support enterprise start-ups in cultural and creative industries and increasingly also in tourism (Romein & Trip, 2017). South Africa is one of the pioneers in the developing world for the application of business incubators to the tourism economy. The roll-out of tourism business incubators and the extent to which they are successful stimuli for start-up and emerging tourism enterprises across the country merits close monitoring.

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References


