



Skills as Impediment to Small and Medium Tourism Enterprises (SMTEs), Eastern Cape, South Africa

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Abstract

Globally, nations depend on small businesses for their economic growth. Big businesses may well dominate the stock markets, but it is ultimately small businesses and start-ups that keep an economy moving positively. Small businesses create job opportunities and drive economic growth in smaller geographic areas. These businesses constitute more than 90 percent in both developing and developed nations, provide more than 40 percent employment and add more than 20 percent to the Gross Domestic Product (GDP). For example, the contribution of SMMEs to national economies in Germany and UK is more than 95 percent. Notwithstanding the challenges that small business are confronted with, in the context of South Africa where 90 percent of the small businesses fail in the first year of operation. In South Africa, where small businesses constitute more than 80 percent of the business sector, the growth rate is relatively low. The low growth rate can be attributed partly due to the lack of skills and lack of support from the government. Against this backdrop, the purpose of this paper is to examine the levels of education, skills and experience in SMTEs and thereby create awareness by developing guidelines for business owners to grow these enterprises. Managers often lack experience, training for management of their businesses. Furthermore, a serious impediment is the lack of management skills which results in poor management actions taken by small business owners. This article contributes to the largely under researched niche area of education and skills development within small businesses in South Africa.

Keywords: Small Business, Skills development, Tourism, Management and Training

Introduction and background

In the United States of America (US), the small business sector comprise 99 percent of all employer firms, employ almost half of the workforce and account for more than 60 percent of the private sector net worth jobs. On the other hand in the United Kingdom (UK), Small businesses or SMMEs account for 99.3 percent of all private sector and 60 percent of all private sector employment. This demonstrates the significant role that SMMEs play in developed economies (Babson, 2016). Therefore, SMMEs play a pivotal role in assisting the economy to create jobs, thus combatting poverty, inequality and unemployment. Given this background, it can be argued that without a vibrant SMME sector, it is likely that universally speaking, economies will struggle to flourish and not be sustainable.

Entrenching the culture of entrepreneurship in order to drive economic growth has become a global mission over the past decade, supported by government investment initiatives and policy directives. Notably, the evidence of this activity is seen in the number of start-up encouragement programmes across the global spectrum, (for example initiatives like Start-up Chile, Start-up United States of America and Start-up Malaysia). Such programmes are designed to ameliorate the levels of small business creation in order to enable economic growth. In the context of US business landscape, small business owners' management



capacity programmes include showing how to access capital, human resource and training and the economic landscape in a broader context (Babson, 2016).

Okwuonu (2015) points out that according to the United States of America (USA) Small Business Administration, (24 percent) of all new start-up businesses fail within two years and 63 percent fail within six years. Similar failure rates occur in the United Kingdom, The Netherlands, Japan, Taiwan, and Hong Kong. Although some studies are more positive regarding the survival rate of new entrepreneurial ventures, new businesses are considered likely to be risky. According to United Nations Development Program (UNDP) (2016) South Africa is ranked by the World Bank as an upper middle-income country. In comparison with other countries in Southern African, it boasts having the biggest Gross Domestic Product (GDP) and this can be largely attributed to the growth and performance of the burgeoning tourism industry. South Africa is considered as an emerging economy and is a member of the G20 as well as the Brazil, Russia, India, China, South Africa grouping referred to as BRICS.

According to the UNDP South Africa's current growth rate is slow to combat the high unemployment rate of 27.7 percent which continues to exacerbate economic and social inequalities. The country is experiencing a high percentage of youth unemployment due to a severe lack of skills and relevant qualifications. In this context, SMTEs development can and must be at the centre of transformation initiatives. This explains the reason why small business must be seen as 'big' business in a South African context.

The UNDP (2016) espouses that the labour absorption rate is at a mere (40 percent) in South Africa and this is amongst the lowest within the BRICS economies. SMMEs remains one of the key potential catalysts to create employment, reduce poverty and inequalities in SA. SMTEs are very well poised to contribute and create jobs, and thus improve the labour absorption rate from the 40 percent as indicated earlier. However, the levels of entrepreneurial activity are relatively low in South Africa in comparison with other developing markets such as Ghana, Zambia, Brazil and Chile. It is for this reason that the National Development Plan (NDP) estimates SMME contribution to GDP at 45 percent, one of the lowest in the world, and has set an ambitious target contribution of (90 percent) by 2030.

Haron, Ismail and Oda (2015) highlight that the development of small enterprises are pertinent in creating job opportunities and economic vibrancy in developing countries. This narrative is also underpinned by the number of initiatives ranging from the Small Business Act of 1996, NDP of 2012, National Treasury 2015 funding support for small businesses to mention but a few. In an effort to provide solution to the hindrance to comprehending SMMEs, a number of private projects have been undertaken to gather data on SMMEs in South Africa. These include the Finmark Trust's Flinscope Survey, SBP SME index and the Global Entrepreneurship Monitor. As such these findings are of particular significance as South Africa's unemployment challenge is characterised as being structural, with unemployment levels even higher amongst lower-skilled and lower-educated persons (Haron et al 2015).

The lack of education poses a core challenge in terms of human resources for the tourism sector (Vallabh & Mhlanga, 2015). The issue of human capital is critically important to the long-term development of the tourism sector overall. Tourism provides employment to individuals of all ages and with varied skill levels. It is also contingent on quality, available human resources to develop and deliver a competitive tourism product that meets consumers' changing needs and is able to mitigate societal woes such as poverty.

According to the Small Business Academy, University of Stellenbosch Business School (2014) there is a vast need for education and training facilities to help local entrepreneurs tackle their



tasks more effectively. The Academy underscores a range of dimensions that relate to education and training, including financial documentation, marketing and general management. Further, the capacity building initiatives must be adapted to the needs of different types of SMMEs and for enterprises in different sectors. Experience of small-business owners, training and education together are deemed important in order to adapt to the local circumstances that play a pivotal role in growing these businesses. When compared to the rest of Africa and indeed the world, "South Africa is said to have the lowest entrepreneurship activity. This means our country is yet to see the true value and benefits of SMMEs" (Zulu, 2014).

Problem statement

There is a dearth of research within the small businesses sector pertaining to education, training and skills that cannot be undermined. Given the fact that education plays an essential role in entrepreneurship, it can be argued that entrepreneurial skills, attitudes and behaviours can be learned through the journey of an entrepreneur. In this context, exposure to entrepreneurship education throughout an individual learning path is imperative. As such entrepreneurial education, training and skills is a life blood of any small business venture. Therefore, through the literature review that has been undertaken, education, training and skills is identified as a critical aspect in the lack growth and development that leads to failure of SMTEs. Hence, a gap seems to exist in terms education, skills and training as a tool to develop and grow SMTEs in South Africa, with specific focus on the Eastern Cape Province (EC). Given tourism's role in the economic growth and in addressing economic development, poverty and unemployment in the EC, it is necessary to investigate avenues for enhancing its sustainability, particularly of its Small and Medium Tourism Enterprises (SMTEs).

Given the undesirable state of affairs relating to small businesses, namely the lack of education, skill and training underpins the purpose of the study in the quest to combat unemployment and to capacitate business manager/owners. Therefore, such initiatives are envisaged to enhance the state of businesses in the Eastern Cape (EC) province of South Africa. Furthermore, the study seeks to provide a direction to alleviate the undesirable state of affairs relating to small businesses by emphasising developing needed skills and thereby improving the standards of living in the Eastern Cape.

Literature review

The Bureau for Economic Research Report (2016) points out that the Small, Medium and Micro Enterprises (SMMEs), also referred to as small business, play an important role in an economy. They can be key drivers of economic growth, innovation and job creation and play a vital role in alleviating dire poverty. In South Africa, government recognises the importance of this segment of business activity, so much so, that a new Ministry of Small Business Development was established in early 2014. These enterprises contribute significantly to national Gross Domestic Product (GDP) and have proved to be major contributors to job creation. Nonetheless, South Africa SMMEs seem to be less innovative in comparison to developed countries.

In South Africa, the levels of inequality have reached unprecedented levels. The economics of the country is to a large extent disengaged from the sources of economic and even financial stability. Concerns are primarily related to poverty, conditions of family life as extended and



nuclear families battle to make ends meet. This is exacerbated by state inefficiency and inadequate social policies. While there have been major positive moves in for example, education and training, far more is required. The relationship between pay inequality, job opportunities and development is, also as Kuznets believed, a curve relating levels of inequality to levels of income, so that where there is good growth, this reduces inequality (Galbraith, 2012).

However, the NDP (2011) argues that a reduction in inequality will be achieved if the Gini coefficient is reduced from the current level of 0.7 to 0.6 by 2030. This picture paints a gloomy scenario for South African economy especially in the so called democratic dispensation. Moreover, the NDP points out that too many people in South Africa are unemployed and the economy is overly and unsuitably resource intensive. The quality of management is particularly important for small business managers which will adapt quickly to the evolving markets and changing circumstances.

In particular, the country's developmental trajectory has not created enough opportunities for the SMTE sector. In accordance with in the NDP (2011) the country as a whole did not anticipate the impact of external shocks and changing the global conditions on its fortunes. Tustin (2015) brings to discussion that the role of small business development is an essential panacea for improving standard of living in society and the stability of the country. This is reiterated through the recent formulation of the Small Business Ministry in South Africa. More specifically, this sector is looked upon to contribute to economic development and eradicate poverty. Small Enterprise Development Agency (2014) concurs that small businesses are considered to be the engines of growth in the developing countries.

This sector has played a vital role in creating jobs, allowing innovations and creating new products, and thus contributing to economic vitality and growth. On the other hand Tassiopoulos (2011) argues that economies, such as South Africa, India and Brazil are deemed to be suffering from high level of structural unemployment, access to the means of production and a high degree of functional illiteracy linked to low skill levels.

Tustin (2015) puts forward that small business is an essential path whereby millions of people enter the economic and social mainstream of any society, and is particularly imperative in creating opportunities for young people, women, immigrants and minority groups. This becomes even more critical in the context of South Africa due to the unemployment challenges and lack of entrepreneurship and the aforementioned challenges. This is highlighted by the number of key developments that have a bearing impediment on the business environment. As indicated, these businesses are experiencing high failure rate due to lack of business acumen. There is a tendency of the lack of graduation of these entrepreneurs from a survivalist mode to becoming progressive. The lack of entrepreneurial culture is a challenge in that small businesses are unable to produce quality products that should keep them competitive and relevant within the marketplace (Tassiopoulos, 2011).

The Global Entrepreneurship Monitor reports (2015) that SA entrepreneurial levels are amongst the lowest in the world, with majority of small businesses struggling to survive in their first year of operation. Another challenge which is underscored pertains to business management, training and skills amongst the managers of the small businesses, which are considered to be inadequate in many ways. There is a paucity of research available on the education levels, skills and experience of managers in small businesses.

The Eastern Cape is economically, the poorest and thus most deprived province in South Africa. It is characterised by high levels of unemployment, poverty and rising crime, which



impact negatively on the economy and are problematic to the sustainability of SMTEs (Vallabh & Radder, 2010). Added to this, poor levels of education for example, in the national context, have been identified as one of the barriers that need to be addressed in order to facilitate economic development initiatives. Furthermore, Tassiopolous (2011) and Vallabh (2014) argue that SMTEs fail because of managerial incompetence and lack of skills, training and education amongst other factors.

South Africa is clearly not alone in this fight. Scott (2015) reports that:

“Poor management and incompetence are behind more than a half of start-up failures in the UK, according to the latest research from CMI. The analysis, based on UK-wide data on SMEs from the Office for National Statistics (ONS) Business Structure Database and the UKCES Employer Skills Survey, found that nearly half (44%) of businesses founded in 2011 had failed by 2014, with incompetence and bad management responsible for 56% of those failures. The situation was worst in Northern Ireland, with only 49% of start-ups surviving more than three years. Exacerbating this problem is the finding that only 42% of small businesses have provided management training during the last 12 months, compared to 89% of businesses with more than 250 staff... Ann Francke, chief executive of CMI, said: “Small businesses are a vital part of our economy, yet as our report shows their growth is being held back by poor management and leadership...”.

Henceforth, this article focuses on the education, skills, training and experience of managers within the SMTEs of the Eastern Cape.

Methodology

Quantitative research was deemed appropriate for this study. Systematic random sampling was employed to select a sample of 332 respondent organisations from the database of the Eastern Cape and Tourism Agency consisting of formally registered small to medium tourism enterprises. A total of 310 usable questionnaires were obtained. Dichotomous, multiple-choice and five-point semantic differential questions and statements constituted the main body of the questionnaire. Both descriptive and inferential statistics were used in the study. Descriptive statistics were computed to reflect the organisations' and respondent managers' general characteristics and to summarise their measurement scores.

Data were subjected to exploratory factor analysis and both the validity and reliability of the research instrument was assessed. The instrument showed good internal validity and reliability and can serve as a basis for the same purpose in contexts other than the tourism and hospitality sector. To ensure the validity of data acquired in the study, a pilot study was conducted with senior decision makers of SMTEs and discussions were held with senior academics who had previous experience in similar studies.

Similarly, reliability was achieved by having the questionnaire critically reviewed by the academics, pre-testing the questionnaire, training and supervising the fieldworkers.

Results and discussion

Respondents in the study were asked to indicate their level of education, experience and training.



Table 1: Level of education of managers

Source: Vallabh (2014)

Level of education	F	%
Grade 10 or lower	7	2.4
Grade 12 or matriculation	65	22.1
National Diploma	110	37.4
Degree (3 to 4 year qualification)	82	27.9
Postgraduate	30	10.2
Total	294	100.0

The results of the study provided some interesting information regarding the most senior managers' educational qualifications as reflected in Table 1. The largest proportion of managers (37.4 percent) had obtained a National Diploma as their highest education qualification and (10.2 percent) held a postgraduate qualification. Furthermore, the low level of exiting at school level (22.1 percent) reflects the low level of managerial competence in order to lead small businesses.

Table 2: Experience and Formal Training of Managers

Subject areas	Experience		Formal training	
	F	%	F	%
General Management	194	62.6	130	42.0
Technical / Practical skills	143	46.1	73	23.5
Marketing Management	113	36.4	80	25.8
Tourism Business Studies	112	36.1	100	32.2
Financial Management	105	33.8	91	29.3
Human Resource Management	88	28.3	47	15.1
Strategic Management	87	28.0	50	16.1
Project Management	74	23.8	52	16.8

Source: Vallabh (2014)

Respondent managers were asked to indicate their experience and formal training. The results are depicted in Table 2. The largest proportion of managers were trained and experienced in General Management. Less than 30 percent had training or experience in Human Resources Management, Strategic Management and Project Management.

The results elucidate that there is lack of suitable managers with Tourism Management qualifications. Therefore, this result underscores the lack of preparedness of the managers before venture into the small tourism businesses. Furthermore, it is evident that the lack of financial education (29.3 percent) poses a challenge to these businesses, given that sound financial management forms the basis of running any successful business.



Limitations

This article presents the three main limitations, firstly the study is limited to the Eastern Cape and not to the entire state of South Africa, making it a regional-specific study. Time and finance limitations, also posed as additional constraints to the study. This study only considered Small Medium Tourism Enterprises which form the nucleus of mainstream economic activities. Informal businesses were also excluded, which is a substantial limitation in itself.

Conclusion and recommendations

The lack of training and experience poses a core challenge in terms of human resources for the tourism sector. Human resources forms a cornerstone that can potentially accelerate the growth of the business. Henceforth, seeking skilled employees to meet future needs of the industry remains a conundrum for these businesses. Academically, this study expands the literature on small businesses and its challenges. In particular for managers as it identifies the challenges and strategies to improve the success rate of these small business towards sustainability. Supporting the development of SMMEs with good educated managers is an important step leading to sustainable social development and while The National Development Plan (NDP) is the means through which the nation will address poverty, unemployment and inequality but relevant quality education is vital.

Research indicates that a good quality education can have an impact on entrepreneurial development as it can enhance an individual's level of self- efficacy and self-confidence (Turton & Herrington, 2012). The government intervention and the fostering of educational and training initiatives, the output of suitably qualified graduates could positively impact the growth potential of SMTEs in the EC.

Effective and relevant education and training in the tourism and hospitality business sector is considered essential if small businesses are to attempt to improve their poor performance (Vallabh and Mhlanga, 2015). The government, private sector and civil society need to work together to drive sustainability. It is therefore recommended that government create a more enabling environment that encourages individuals to see entrepreneurship as a financially viable employment option. In this context reviewing restrictive business laws is essential. A more facilitating mind-set is recommended as opposed to a regulatory mind-set by keeping red tape to a minimal. Lastly, this research supports the National Development Plan (NDP) vision 2030 in its endeavours to create a more enabling business environment. Therefore, capacitating business owner/managers to successfully operate their enterprises is imperative towards building a sound economy. As such, these results will provide an impetus to further research in order to support the trajectory of the South African Small Business Ministry.

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