



# Small to Medium Tourism Enterprises (SMTEs) promoting Local Economic Development in Hogsback, Eastern Cape, South Africa

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## Abstract

Universally, small to medium tourism enterprises (SMTEs) are acknowledged for their capability to create job opportunities and vibrant economies in both developed and developing destinations. SMTEs have the potential to benefit local communities through creating jobs, especially in small towns such as Hogsback in the Eastern Cape of South Africa. The purpose of this research was to investigate the ability of SMTEs to promote local economic development (LED) in Hogsback. . This approach used in this study was based on a mixed methodology and a systematic random sample of SMTEs in the Hogsback area was drawn. A questionnaire was used to collect primary data from 70 respondents. Secondary data were collected through a review of relevant literature found in books, articles, journals, state publications and the internet. The key data were captured and analysed using the Statistical Package for the Social Sciences (SPSS) software. The findings showed that 93.34% of respondents agreed that SMTEs create economic benefit and 90% agreed that the economy of Hogsback relies heavily on the tourism sector. Most importantly, all of the respondents (100%) agreed that the tourism industry is the biggest employer in Hogsback. The study recognised that SMTEs in Hogsback provide significant economic benefits and contribute towards LED. However, they lack information on how they can get support from government institutions in order to grow and develop and this remains a problem. A number of SMTEs are not contributing to LED for this reason. Government agencies should assist SMTEs with finance, market access and other needs to ensure their success in creating economic diversification from agricultural dominated Hogsback and achieve business survival and sustainability.

**Keywords:** SMTEs, local economic development, hogsback, South Africa, tourism

## Introduction

The growth of tourism in South Africa since 1994 has been phenomenal, and tourism is now referred to in some quarters as the 'new gold'. Tourism's growth has surpassed gold mining, which had in the past, driven the economy of South Africa. Tourism has been incorporated within the economic policies of South Africa the National Development Plan. Saayman & Saayman (2010) noted that the growth rate in tourist arrivals has also surpassed that of the world average for more than a decade. The growth is fuelled by reasons that include hosting major events, while political turmoil and terrorism attacks in other parts of the world have had



positive effects on South African arrivals. Globally, tourism destinations are dominated by small to medium tourism enterprises (SMTEs) which provide a wide range of products such as accommodation, catering, transportation, attractions and activities. Therefore, according to Buhalis (2011), tourism contributes significantly to the value of services such as authenticity and the quality of tourism experience at destinations. “Although large companies drive and economically dominate the South African tourism industry, it remains the case that, as in most countries of the world, the vast majority of South African tourism enterprises fall into the category of SMMEs. As an economic sector, one of the most distinguishing features of tourism is the overwhelming pre-eminence of small-scale entrepreneurship” Rogerson (2008: 58). In the context of developed economies, more than 95% of enterprises are small and medium enterprise (SMEs) accounting for almost 60% of private sector employment (Ayyagari et al. 2011).

Small businesses are able to create jobs at a lower cost and faster rate than big businesses. The tourism industry with its sustained growth, as an economic sector has shown growth which has supported the growth of small business to create jobs and drive economic growth. Small businesses are known for their potential to create job opportunities and generate capital in both developed and developing economies as noted by Jili, Masuku and Selepe (2017). Developing destinations such as Togo, Uganda, Ghana, Cote d’Ivoire, Nigeria, Kenya, Malawi, and Burkina Faso have recognised the impact of small enterprises. Smit and Watkins (2012) point out that African small businesses are important for the promotion of economic growth, job creation and poverty alleviation. The advent of the democratically elected government in South Africa in 1994, led to the understanding of the importance of small business to the economy, through the White Paper on National Strategy for the Development and Promotion of Small Business. Cass (2012) indicated that the strategy was formed to deal with the unemployment rate, and to accelerate economic growth by helping small businesses. Unemployment, poverty and inequality are the major structural challenges that face South Africa as a country. Small businesses are progressively being regarded as critical vehicles for poverty alleviation and the reduction of unemployment. Small businesses are able to create jobs at lower cost, as a means of reducing the high rate of unemployment which is a structural issue facing South Africa.

Unemployment is the major contributor towards poverty in South Africa. Arema & Mukaila (2012) espoused that small businesses are considered to be a tool for economic development. Jili, Masuku & Selepe (2017) argued that small businesses are the main role-players in local economic development. Therefore, role-players formulated a suitable policy environment to assist small business activities, by means of creating employment opportunities, developing infrastructure in a manner that provides business with entrepreneurial skills for local individuals, and inspiring cooperatives. Thus facilitating the creation of energetic communities geared towards local economies. Small businesses contribute towards local economic development and the reduction of poverty. Universally, small businesses are identified for their ability to generate capital and create job opportunities in both developed and developing destinations according to Jili, Masuku & Selepe (2017). In the context of developed economies such as the United States of America (USA), the small business sector represent 99% of all firms, and employ almost half of the workforce and account for more than 60% of the private sector worth jobs as noted by Mxunyelwa & Vallabh (2017). Small businesses contribute towards the local economies by creating jobs and promoting the destination as an important tool for growth. On other hand, the contribution of SMMEs to national economies such as Germany and the United Kingdom (UK) is more than 95% as noted by Mxunyelwa and Vallabh (2017). This exhibited the significant role that small businesses play in developed economies as noted by Babson (2016).

More importantly, small businesses play a fundamental role in assisting the economy to create jobs, reduce poverty, and lower inequality and unemployment. In the context of developing economies, such as South Africa, government has recognised the SMME sector as the means



to achieve accelerated economic growth. Interestingly, South Africa which has a high rate of unemployment, has a low rate of entrepreneurship. However, small businesses remain imperative sources of employment and economic growth in South Africa. Ayandibu & Houghton (2017) noted that, in past years, SMMEs accounted for over 76% of the total employment in the economy. Ntsika (2002) argued that SMMEs contributed 56% of private sector employment and 36% of the gross domestic product in South Africa. On the other hand, Kongola (2010) pointed out that SMMEs account for approximately 60% of all employment in the economy and more than 35% of South Africa's GDP. The South African state envisaged that the growth of SMMEs as a national economic imperative to ensure that it absorbs the more than 25% unemployment level in South Africa. The small business sector is thus clearly important as it plays a significant role in promoting rural provinces, such as the Eastern Cape Province in South Africa. In as much as small businesses are important for economic growth, South Africa has a low rate of entrepreneurship, which is peculiar for a country with a high rate of unemployment. The majority of South Africans are unemployed and this has resulted in more than 17 million South Africans depending on the social security system.

The majority of individuals depend on state grants, and this is not sustainable. Consequently, small businesses and new entrepreneurs in rural areas have requested assistance from the South African government as noted by Fatoki & Smit (2011). Haron, Ismail & Oda (2015) pointed out that the development of small businesses is pertinent to creating job opportunities and economic vibrancy in developing destinations. Biyase (2009), and also Fatoki & Smit (2011) highlighted, that despite the role played by the SMMEs sector and the support that they get in South Africa, more than 70 % of these ventures still fail within three years after being established. The high failure rates of SMMEs in South Africa can be attributed to the challenges such as financial constraints, poor management, economic factors, inefficient marketing and infrastructures and lack of support from key stakeholders as noted by Fatoki & Garwe (2010). In order to develop local economies, financial support, professional management, and flexible marketing teams are required. The Eastern Cape Province is one of the poorest in terms of the economy in South Africa. Therefore, it is prone to high levels of unemployment, poverty and rising crime, which impact negatively on the economy and the sustainability of SMTEs as noted by Vallabh & Radder (2010). Chimucheka & Mandipaka (2015) contended that the levels of unemployment, poverty and inequality are very high in the Eastern Cape province. Therefore, the development of SMTEs could play a significant role in promoting the growth of the local economy.

Additionally, lower levels of education have been identified as one of the barriers that needs to be solved in order to aid economic development. Education acquisition, assists a person to acquire skills that can be used to run a business more successfully. Vallabh (2014) argued that SMTEs fail because of managerial incompetence and lack of skills, training and education amongst other factors, which means that the Eastern Cape Province has serious problems. Turton & Herrington (2012) indicate that a good quality education can have an impact on entrepreneurial development as it can improve an individual's level of self-efficacy and self-confidence. Education has a potential to change individual's mind-sets in other words suitable graduates could impact positively on local economic development. Mxunyelwa & Vallabh (2017) noted that state intervention, fostering of education, training initiatives, and suitably qualified graduates could positively impact the growth potential of SMTEs in the Eastern Cape Province. The tourism industry is favoured as a perennial job creator, because of its labour intensive nature.. The growth of tourism is associated with the growth in jobs, and this is an industry dominated by SMMEs. Saayman & Olivier (2005) noted that SMEs are also the vehicle by which the lowest-income people in the South African society gain access to economic opportunities.

Henama (2013) noted that tourism businesses have low barriers of entry that create the conditions for the majority of SMMEs being owned by family members, spouses and extended family members. The multiplicity of skills required in the tourism industry, ensures that it



employs those with low skills and the highly skilled. The cross cutting nature of the tourism industry across various industries, means that the impact of tourism is far much greater. The fragmented nature of the travel industry results in the participation of a plethora of businesses in the production of the tourism product offering as noted by Henama (2019). The tourism industry should be planned to have direct supply chain linkages with existing economic sectors, such as agriculture, manufacturing and construction. Tourism as an economic sector directly and indirectly underwrites the performance of virtually all industries and to the development and prosperity of destinations. Visitors' expenditure flows through an extensive range of businesses providing services to visitors and this has the effect of stimulating the economy as noted by Litheko & Potgieter (2016). The tourism industry has a direct, indirect and induced impact on the local economy which means that the tourism industry has a greater impact on the destination economy than other sector.

If the tourism industry is planned to be pro-poor, the majority of tourism expenditure would be retained in the local economy. As many destinations jump on the tourism 'bandwagon', this has increased competition for tourists. The sustained growth of tourism, which has robust growth even in what are times of low economic growth, has led to it being regarded as an 'easy industry' in which to operate within. This is however further from the truth, as the tourism industry requires deep investment in infrastructure a range of soft resources such as safety and security to succeed. The taxing of non-residents who are tourists can increase the tax coffers to build infrastructure that is used by locals and non-residents such as roads, airports and telecommunications infrastructure. Ferreira (2007) noted that there are unrealistic expectations about regarding the role that tourism might fulfil as an economic growth mechanism for a town. This means that tourism is regarded as a cure-all, which is not entirely the truth and this places undue pressure on the tourism industry to create "economic miracles". The "economic miracles" include labour-intensive jobs, diversifying the economy, and the inclusion of rural areas in tourism consumption.

### **Theoretical Framework: Local Economic Development**

Local Economic Development (LED) usually refers to actions initiated at the local level, typically by the collaboration of partners, to address particular socio-economic problems, or to respond to economic opportunities. Currently, in the South African context it is a local state mandate, but can also occur as a result of private or community level initiatives. LED requires collaboration between three partners namely the state, the private sector and local communities (Mayer, 2013). LED ensured that local citizens and local businesses are involved contributing towards their local economic future plans. LED is a concept to do with the development of a local area, specifically aiming to encourage the local economy to grow, thrive and create jobs, by making healthier use of locally available resources (Trah, 2004: 1). The local economy of small towns such as Hogsback stand to benefit from SMTEs. SMTEs operate as a catalyst for local economic development. Such an opening of new enterprises would come with socio-economic benefits such as creating sustainable jobs for the locals and improving the standard of living. The local community may be encouraged when local government focuses on the expansion of enterprises as noted by Helmsing (2001). In the South African context, the National Government prioritises economic development, which allows and encourages local people to work to achieve local economic development goals Phago & Tsoabisi (2010). The policy intention is to produce economic benefits and to enhance the quality life of all the inhabitants in various areas. However, the Eastern Cape Province is regarded as poorest province in the country - yet there are many opportunities, which could act as catalysts for LED. LED is not an isolated means of stimulating the local economy and promoting development, as it forms part of the overall structure and context of complete municipal strategic planning as noted by Phago (2009).

### **Theoretical Framework: Tourism-led Local Economic Development**



LED is an avenue for creating economic prosperity for a locality, where the sphere of government works with the local business community and external investors to create conditions for businesses to flourish, which would stimulate economic activity that would create prosperity and absorb labour. Local government plays a vital role in ensuring LED success, as local government is supposed to create an enabling environment that will allow the private sector to create tourism jobs. A competent and supportive local government sector can be a force for good to create an enabling environment that would allow the private sector to flourish in the tourism industry. Local government by managing infrastructure such as sewage systems, roads, and cleanliness of towns and cities, which create an enabling environment for tourism to flourish. Marais (2016) noted that in South Africa, there is no national government support for LED in secondary cities. LED has not been 'institutionalised' throughout and within municipalities, and resulted in one-sided poverty alleviation efforts as noted by Marais & Botes (2009). Van Der Heijden & Cohen (2010) noted that LED has ten guiding principles in South Africa:

- Government has a decisive and unapologetic role to play in shaping the economic destiny of our country.
- Creating an environment in which the overall economic and social conditions of the locality are conducive to the creation of employment opportunities.
- LED is an outcome of actions and interventions resulting from local good governance and the constant improvement and integration of national priorities and programs in local spaces.
- Inward investment from the state or private sector will only be effective where the potential and competitive advantages of each area are known and exploited.
- Promoting robust and inclusive local economies requires the concerted, coordinated action of all spheres and sector of government.
- Locally owned appropriate solutions and strategies must emerge to support national frameworks in both rural and urban local spaces and should promote sustainable development and sustainable human settlements.
- South Africa competes in a global and increasingly integrated world economy whose threats must be minimized and whose opportunities must be exploited.
- Private companies form the heart of the economy and have a crucial role to play as partnerships with public and community role players that will ultimately stimulate robust and inclusive local economies.
- People are the single greatest resource and including all citizens in development and increasing their skills leads to increased opportunities for stimulating local economies.
- Local initiative, energy, creativity, assertive leadership and skill will ultimately unlock the talent potential in local economies and will shape local spaces.

Rogerson (2012) noted that a fundamental precondition for successful tourism development is investment in the local assets or tourism resources. Even areas of deprivation and lack of infrastructure, can be developed for tourism, a niche form of tourism, called slum tourism. Rogerson and Mthombeni (2015) noted that Brazil's favelas or South Africa's townships are the core slum tourism destinations. Tourism has been classified as the 'new gold' in South Africa and it contributes 2.8% of GDP in South Africa according to The Tourism Satellite Account, produced by Statistics South Africa (2018) which noted that the tourism industry has more jobs than the agricultural industry. The sustained growth of tourism as an economic sector has emerged as reliable sector to attract 'new money' into a locality and transform the local economy. Tourism-led local economic development in South Africa is therefore the new normal, as the economy is increasingly dependent on tourism to drive the economy.



## **Theoretical Framework: Rural Tourism**

Rural tourism refers to tourism consumption that takes place in the countryside, and rural areas are perfect for rafting, hiking, cycling and farm tourism. “Rural tourism has been seen as a vehicle that has the potential to influence socio-economic changes through the use of natural and socio-cultural economic resources” (Nzama, 2010: 44). Mafunzwaini and Hugo (2005) have noted that rural tourism should be:

- Located in rural areas.
- Functionally rural, that is, built upon the rural world’s special features of small-scale, open spaces, contact with nature and the natural world, heritage, traditional societies and traditional practices.
- Rural in scale, in terms of both buildings and settlements.
- Traditional in character, growing slowly and organically, and connected with local people.
- Representative of the complex patterns of the rural environment, economy, history and location.

Smaller towns in South Africa face greater economic challenges, than the major urban centres, which have experienced rapid urbanisation and do not house the majority of residents of South Africa. The sustained growth of tourism as an economic sector, has emerged as a reliable sector to attract “new money” into a locality and transform the local economy. Small and secondary towns have begun marketing themselves as sites of tourism consumption. The majority of small towns are single industry towns such as in the Free State which depended on gold mining. There has been consolidation in the agricultural industry, which is increasingly mechanising, which has led to severe job losses in already high unemployment rural areas. Mining has lost its shine; and has been a perennial jobs shedder, and has declined in its share of contribution to economic growth and the gross domestic product (GDP) of South Africa. South Africa’s rural areas are economically depressed, suffering from declining economic prospects, loss of brain drain, and poor human development indicators such as low levels of employment, literacy and health. Rural areas, therefore, require an economic messiah that would employ the rural population, to prevent the rural-urban migration of poverty. Tourism has been integrated in economic development policies for rural areas. Briedenhann and Wickens (2004) noted that lack of capacity at local government to assume responsibility in the rural tourism sector.

## **Problem Statement and Research Objectives**

Universally, SMTEs are recognised as an important sector, which contributes towards local economic development. SMTEs are the engines of growth, particularly in the context of developing economies such as Eastern Cape Province in South Africa. However, there appear to be limited studies that address how SMTEs can be used as a catalyst for local economic development. Furthermore, there is paucity of research that deals with local economic development, specifically in Hogsback in the Eastern Cape, South Africa. Hogsback is a village located in the Amathole Mountain Range, located along the R345 road from Cathcart, located on the N6 highway. Thus, the study sought to investigate how SMTEs can be utilised as a catalyst for promoting local economic development (LED) within Hogsback. The following research objectives were pursued for investigation in this study:

- To analyse the role of SMTEs in developing the local economy.
- To analyse the initiatives targeted at unleashing economic opportunities.
- To analyse the role of SMTEs in Hogsback.

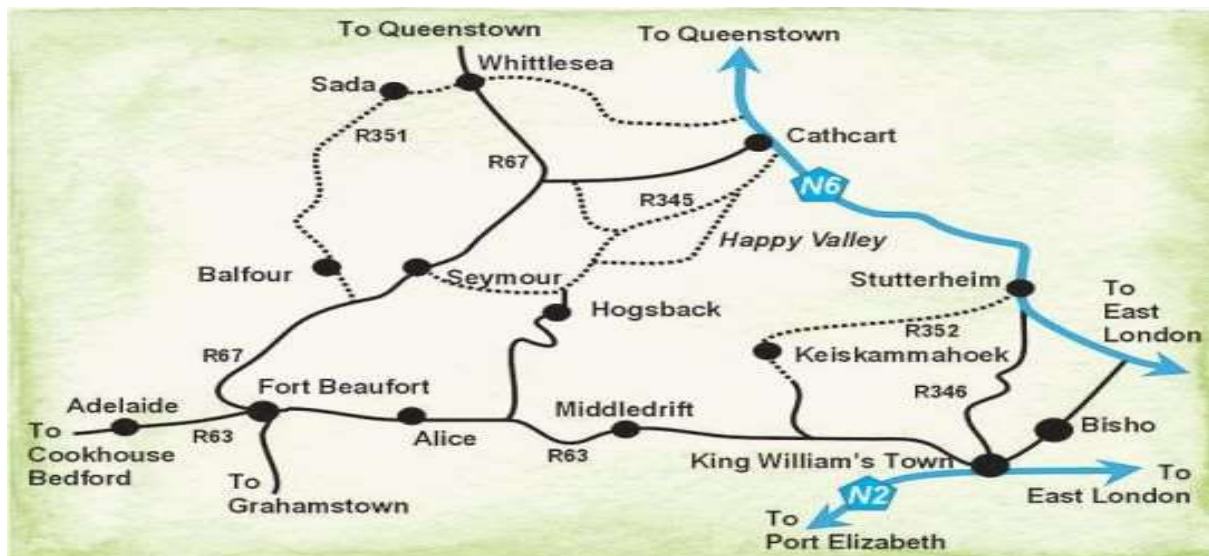


Figure 1: Map of the Eastern Cape  
Source: <https://www.google.com/search?>

## Research Methodology

The study used a mixed methodology through the use of self-administered survey questionnaires as a data collection instrument. The self-administered questionnaire has three sections, the first section sought to investigate demographic variables, the second section investigated the character of the tourism enterprises in Hogsback and the third section, investigated local economic development dynamics, in the case of Hogsback. Specifically, the aim of the sample design was to minimize costs, and the gap between the values obtained from the sample and those prevalent in the population. Systematic random sampling was adopted by this study, for its simplicity and periodic quality. The questionnaires were given to seventy SMTEs within Hogsback from which thirty usable completed questionnaires were recovered. According to Kothari (2004), quantitative research is based on the measurement of quantity or amount. It is derived from the phenomena that can be expressed in terms of quantity. Quantitative methods were applied to achieve the total number of respondents and their demographic profiles. The quantitative method applied was a constructive questionnaire, which involved a section of open-ended questions that were not deemed offensive to the respondents. The study focused mainly on whether SMTEs promote local economic development in Hogsback, Eastern Cape. The data was analysed using the Statistical Package for the Social Science (SPSS) software that enabled the creation of tables, bar charts, and graphic presentations.

## Research Results

Figure 2 indicated that the majority of business type in Hogsback was a business partnerships represented by 43.3% of responses from the sample. The second majority represented by 40% of the responses, were private companies.

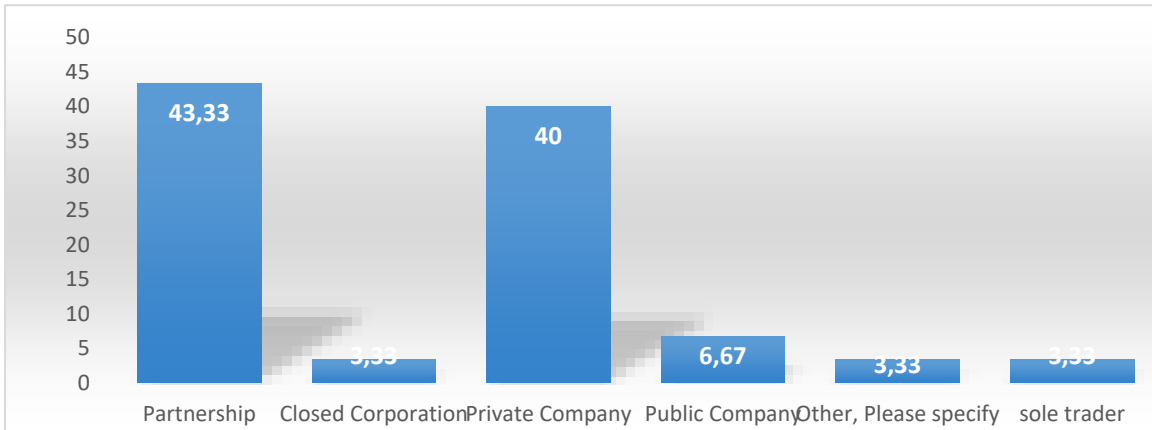


Figure 2: Type of Business  
 Source: Author designed figure

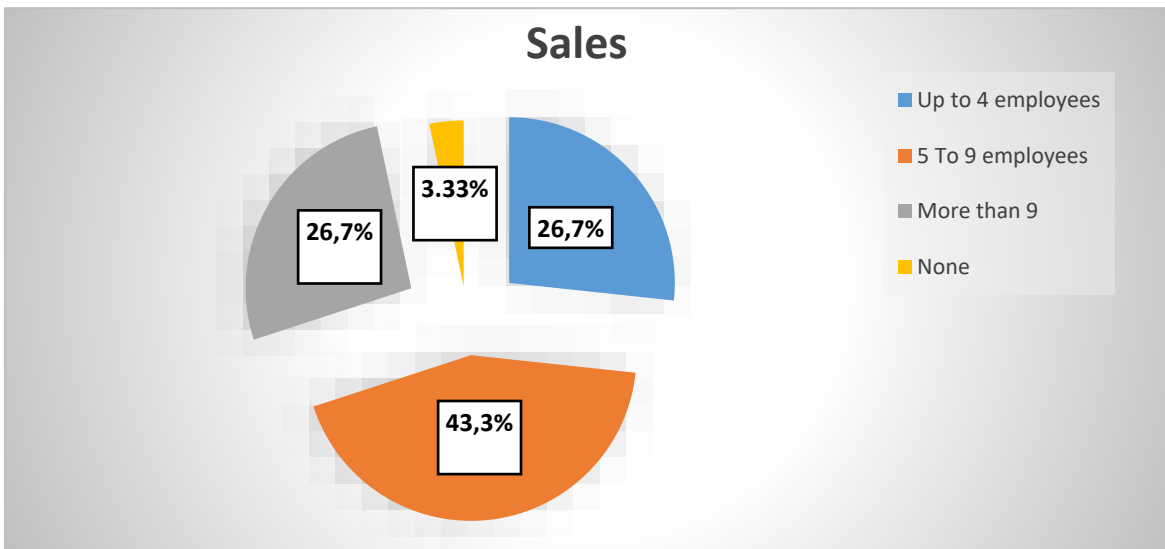


Figure 3 Type of Tourism Business  
 Source: Author designed figure

With reference to tourism employment, the majority of establishments (43.3%) employed between five and nine permanent employees. Whereas, 26.7% of respondents employed nine and more staff members, whilst 3.3% of respondents did not employ additional labour, depending exclusively on the entrepreneur. The results confirm that 30.03% of the respondents indicated that they employed less than 9 permanent employees, proving the small nature of tourism enterprises. 43.3% of the respondents indicated that they did not use employees, and they depended on the exclusive labour of the entrepreneur.



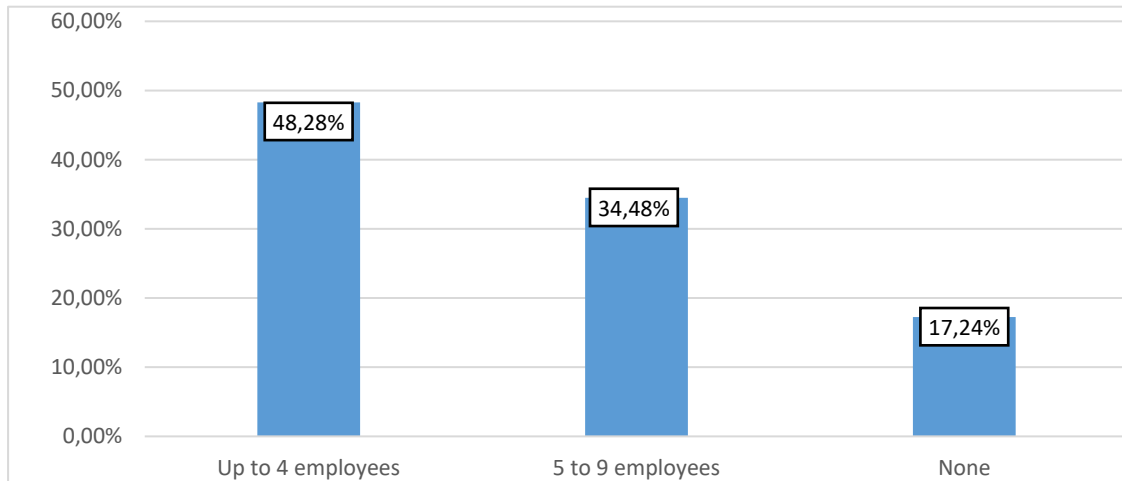


Figure 4: Employment of Temporary Staff  
Source: Author designed figure

The findings revealed that 48.3% of the respondents employ between one and four temporary staff members per annum, representing the majority result from the sample. 34.5% of businesses in Hogsback employed between five and nine temporary members per annum. The minority result, represented by 17.2% of the sample, indicated that they did not require temporary staff during the year for their tourism enterprise.

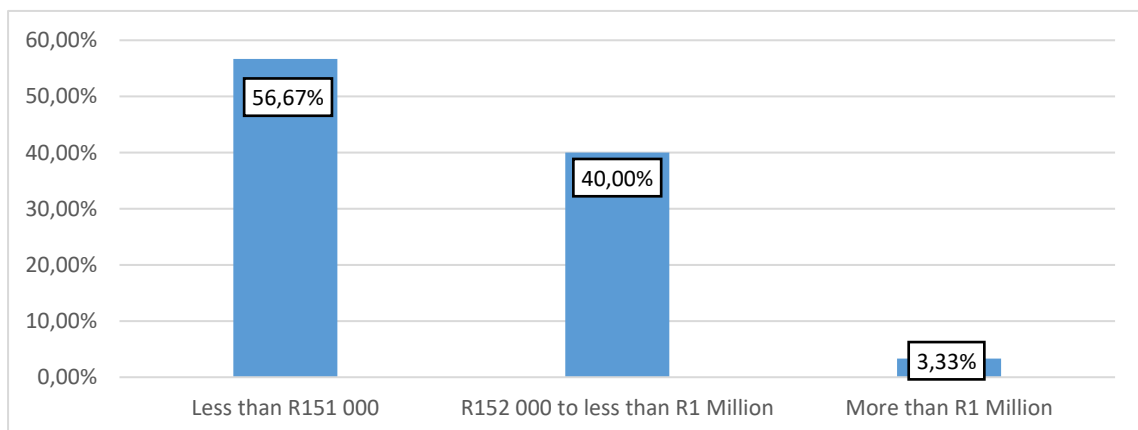


Figure 5: Gross Annual Turnover

The findings show that 56.67% of businesses were making less than R151 000 per annum, and this represented the majority. The second majority represented by 40% of businesses were making between R152 000 and R1 million. The minority of businesses, (3.33%), had an annual turnover of more than R1 million. The results prove the majority of businesses in the tourism industry are generally small scale in nature, possibly survivalist enterprises.

## Conclusion

The current study discovered that the respondents view SMTEs as a participating sector, contributing significantly to economic development and poverty reduction, by opening job opportunities and generating economic benefit through visitors spending. It can be concluded that the tourism industry unlocks economic opportunities in Hogsback. Considering the low levels of employment and appetite for entrepreneurship, this study confirms, economic diversification towards tourism. Operating within the tourism industry was able to bring in a



new market and present the area for tourism consumption, for an area usually associated with agriculture. Therefore, the study indicated that SMTEs play an important role in creating economic opportunities. Tourism has emerged as a sustainable economic diversification strategy for Hogsback which is dominated by agricultural production. Greater tourism consumption in Hogsback would increase employment opportunities and stimulate local businesses from the new money that comes with the tourists. It creates ample opportunity to improve the Quality of Life and standard of living of the local residents, using tourism as a force for good.

## Recommendations

The following recommendations are formulated based on the above-mentioned conclusions. SMTEs seem to be the lifeblood of the Hogsback area. In order to develop and sustain the SMTEs' strength, it is recommended that community members or entrepreneurs seek information and enter into partnerships with organisations that can assist them (besides relevant government agencies that were established to support small businesses). There are a few SMTEs failing to contribute to local economic development because of challenges they face such as lack of market access and access to credit to grow their service offerings. Therefore, making use of government agencies can help them to solve the challenges they are facing.

## Future Research Directions

The current study emphasised that SMTEs promote local economic development in Hogsback, Eastern Cape. Further research should investigate the contributing of government to creating an enabling environment for tourism to flourish in the Hogsback area. The factors that could contribute towards the tourism competitiveness of Hogsback as a destination should be investigated.

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