

## AN ANALYSIS OF TOURISM SMEs IN SOUTH AFRICA

Melville SAAYMAN & Esti OLIVIER

*Institute for Tourism and Leisure Studies, Northwest-University, Potchefstroom,  
Republic of South Africa*

### **ABSTRACT**

*In a comparative study of 37 participating countries on an analysis of Small Medium Enterprises (GEM, 2002) it was found that South Africa ranked the lowest of all developing countries, with only 3.3% of the adult population being involved in pursuing exploitable opportunities in various industries. Since 1994 South Africa has seen tremendous growth in tourism arrivals and 2002 saw a growth rate of 16.3%, which was one of the highest in the world. Even though tourism figures are on the increase, tourism SMEs are not really showing significant growth. This leads to the aim of this research, which is to do an analysis of tourism SMEs in South Africa. The analysis will entail determining the weaknesses, opportunities and threats that SMEs are experiencing. In order to achieve the latter, a survey of 150 successful tourism SMEs was conducted. These SMEs provided insight into all obstacles and threats they had experienced in becoming successful. This survey was one of the first of its kind in tourism in South Africa and from the results, recommendations are made on how to improve the current situation in order to grow tourism SMEs. In order to achieve its purpose, the paper is organised in the following manner: The first section deals with the introduction, problem statement and aim of the research; section two explains the research methodology; section three deals with the results; and the paper concludes with the recommendations in section four.*

**Key words:** Tourism; SMEs; South Africa; Tourism industry.

### **INTRODUCTION**

Tourism is vital to the development of South Africa and its people and it is currently the fastest growing industry, employing an estimated 600 000 people (Van der Merwe, 1999). It is also the largest industry in the world, and is at present the fourth largest industry in South Africa, after mining, agriculture and trade (Pearce, 1985; Satour, 1995; WTTC, 1995; De Kock & Saayman, 1999). Tourism is also the biggest employer in the world, with an estimated growth of 8% in employment annually, and it thus has the potential to become the biggest earner of foreign currency (WEFA, 1993; Keller & Koch, 1995; Swart, 1997). Much of these aspects were initiated by the political changes in 1994, which opened the doors of South Africa to the world.

Equally as important as recent political changes in South Africa is the fundamental restructuring of the economy. Not only is there a need for an economic transformation to support the political changes, but it is just as vital for communities to have equal access to the economic mainstream (Kuscus, 1996). According to the White Paper on Tourism (1996), South Africa's tourism resource base is phenomenal and it is of the utmost importance for tourism small and medium enterprise (SME) opportunities to be exploited in order to enable the tourism industry to grow to its full potential. In 2002 South Africa had one of the highest

growth rates in tourist arrivals in world tourism. Saayman and Saayman (1999) and Gee *et al.* (1989: 5) have identified various sectors in the tourism industry that offer opportunities for SMEs, for example:

Direct suppliers – sectors that are visible to the tourist, for example hotels, travel agents, restaurants, airlines (charter flights) and retailers.

Support services – support the direct suppliers, for example tour operators, tourism research units, tour and trade publications, food services and laundrettes.

Development organisations – mainly handle tourism development, which is more complex than the previous two categories, and include government agents, financial institutions, estate developers and educational centres.

Keeping in mind the aspects mentioned above and an increase in tourist expenditure and arrivals, as well as investment in South Africa, opportunities are knocking in different sectors of the tourism industry. The industry needs only to be well managed for benefits to be reaped for many years to come (White Paper on Tourism, 1996; Saayman, 1997). All indications are that, in line with the worldwide trend, the SME sector in South Africa is the country's only real hope for meaningful economic growth and job creation (Anon., 1998a; Godongwana, 2001; Anon., 2002). Tourism SMEs have a major role to play in the South African economy in terms of employment creation, income generation and output growth (Rogerson, 1997). SMEs account for approximately 60% of all employment in tourism and 30% in the total economy. Often, SMEs are also the vehicle by which the lowest-income people in the South African society gain access to economic opportunities – at a time that distribution of income and wealth in South Africa is amongst the most unequal in the world. In the current macro-economic context, it is imperative that significant investment is made in SMEs, in order to create both short and long-term capacity for labour absorption and output growth, as well as to improve income generation and redistribution (Rogerson, 1997; Anon., 1998b). The key objectives of the Government's national small business strategy supported by the White Paper on Tourism (1996) are the following (White Paper on Small Business, 1995):

To create an enabling environment for small enterprises.

To facilitate greater equalising of income, wealth and earning opportunities.

To address the legacy of apartheid-based disempowerment of black businesses.

To support the advancement of women in all business sectors.

To create long-term jobs.

To stimulate sector-focused economic growth.

To strengthen cohesion between small enterprises.

To level the playing field between bigger companies and small businesses, as well as between rural and urban businesses.

To prepare small businesses to comply with the challenges of an internationally competitive economy.

From the above one could see that government intends to grow SMEs in South Africa, and specifically in the tourism industry, and is prepared to develop policies to achieve this (Swart, 1997; Swart & Saayman, 1997). However, a study comparing 37 participating countries found that South Africa ranks the lowest of all developing countries in that only 3.3% of the adult population is involved in pursuing exploitable opportunities (Gem, 2002). This finding is

supported by various other studies (for example De Coning, 1992; Visagie, 1997; Saayman & Saayman, 1999; Saayman & Slabbert, 2001; Olivier, 2002), which showed that limited success has been achieved in producing more successful SMEs in the tourism industry. Therefore it has become paramount to do an analysis of SMEs in the South African Tourism industry to identify the reasons for these results in order to make recommendations to rectify the situation.

### RESEARCH METHODOLOGY

The aim of the literature study was to develop a questionnaire to collate essential information from successful tourism entrepreneurs in South Africa where the latter could reflect on issues that may give answers to why they had been successful. It was found that different researchers had looked at different aspects of entrepreneurship, for example entrepreneurial theories, elements of entrepreneurship, the needs of SMEs, government policies, and the advantages of tourism entrepreneurship, to mention a few. The relevant aspects for the purpose of this article were determined by combining the views of the various researchers, which include those of Heath (1993), Koh (1996), Kuscus (1996), McGrath and King (1996), Harrison *et al.* (1997), Visser (1997), Zulu (1998), Dean (1999), Lund & Skinner (1999), Saayman and Saayman (1999), Bennett (2000), Dott (2000), Lambris *et al.* (2000), Rogerson (2000), Schwenke (2000), Sheridan (2000), Saayman (2000) and Dannhauser (2002).

A 4-point Likert scale was used, where respondents could rate relevant aspects on a scale from Very True (4), True and Not True to Irrelevant (1). For the purpose of this paper the results of the scale Very True and True were combined to form a single percentage. The questionnaire contained both open- and close-ended questions. The target population was South African tourism entrepreneurs who had owned established SMEs for at least a period of five years and had employed at least two full-time employees, which is regarded as an indicator of success.

A list of names and addresses of SMEs in South Africa were obtained from SATSA (South African Tourism Services Association), and the criteria mentioned above was used which reduced the number of businesses from 900 to 450, of which 150 tourism businesses from all nine provinces in South Africa were randomly selected. Hence, 33% of the total population formed part of this survey. The entrepreneurs were asked to take part in the survey by completing the questionnaire. One hundred (N=100) questionnaires were returned from the original 150 distributed, thus a response rate of 67%.

### RESULTS

The results of this paper deal with an analysis of the types of business that took part in the survey, followed by an analysis of their weaknesses, opportunities and threats.

## TYPE OF BUSINESS

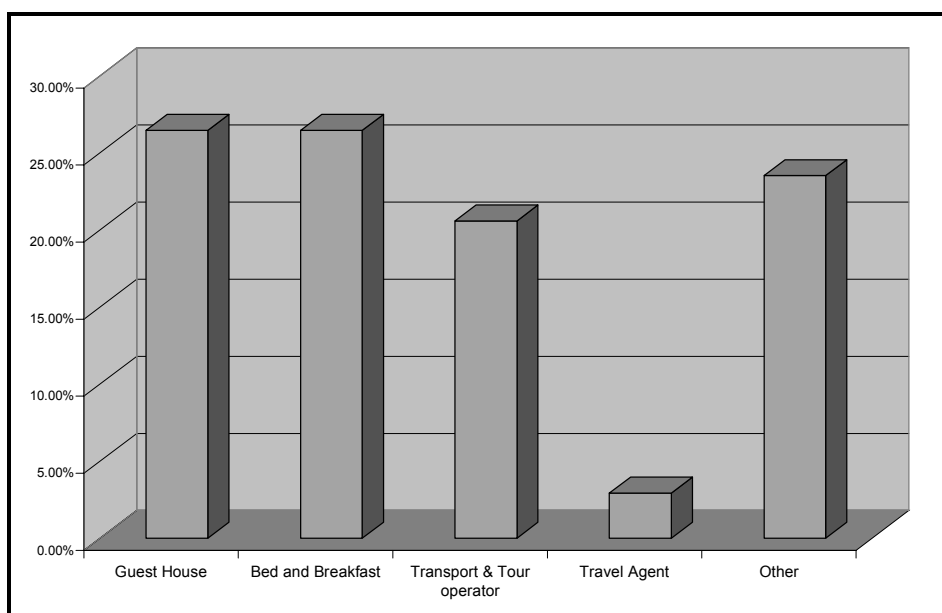


FIGURE 1. TYPE OF BUSINESS

According to Figure 1, 26% of the respondents were guesthouse owners and a further 26% were bed & breakfast owners, 23% had other businesses, which included game farms, curio shops, jewellery shops, game lodges and small hotels, 19% of the respondents were tour operators and 2% were travel agents. These results show that a variety of tourism SMEs formed part of this survey, and this can play an important role in the application of the results.

## WEAKNESSES

According to Table 1 respondents agreed that managerial skills (100%), followed by financing of entrepreneurs (97%), knowledge, skills and experience (91%), as well as education and training are the greatest weaknesses of developing entrepreneurs in South Africa. These results were echoed by the Gem (2002) report.

When one looks at financing of SMEs, only 3% had enough start-up capital and only 35% of respondents who did not have enough start-up capital knew where to access tourism finance. Seventy-nine percent of respondents said that they had obtained bonds from a bank, 70% had used personal savings and 23% had borrowed money from family and/or friends. A further 14% had used their inheritance to start tourism businesses. None of the respondents had made use of Government grants, although 50% said that grants in tourism offer new opportunities for entrepreneurs. To the question whether they had experienced problems accessing finance, 33% of the respondents had not encountered any problems, whilst 38% had experienced problems in accessing finance.

TABLE 1. WEAKNESSES

WEAKNESSES	TRUE	NOT TRUE	IRRELEVANT		
Managerial competence	100%	0%	0%		
Education and training for entrepreneurs	82%	18%	0%		
Knowledge, skills and experience	91%	9%	0%		
Finance for tourism entrepreneurs					
• Finance as an important factor	97%	0%	3%		
• Accessibility of finance	35%	56%	9%		
• Problems accessing finance	33%	38%	29%		
	<b>Banks</b>	<b>Savings</b>	<b>Family &amp; Friends</b>	<b>Inherited</b>	<b>Government Grants</b>
• Financing institutions	79%	70%	32%	14%	0%

### OPPORTUNITIES

According to Table 2, 76% of respondents felt that an opportunity will exist in their area to start an own tourism business within the next six months, 38% of respondents said that the government's Spatial Development Initiatives (SDI) offer new tourism opportunities. However not all entrepreneurs knew what the SDI were all about (47%). The South African Spatial Development Initiatives (SDI) programme is a short-term investment strategy, which aims to unlock economic potential in specific Southern African locations. The SDI aims to facilitate the creation of viable new jobs as potential investment opportunities, identified through the process, are taken up by the private sector. Fifty percent of respondents agreed that grants in tourism offer new funding opportunities. However, only 59% of respondents are aware of programmes to assist entrepreneurs in business ventures.

Most of the respondents (88%) indicated that experience and knowledge helped them identify an opportunity, which leads to a situation where they do not have to spend much on market research. They know what tourists want from previous experience and knowledge. Fourty one percent said that other tourism developments, for example casino developments, did create opportunities for them, while 29% indicated that family and friends as well as advertisements in the media made them aware of tourism opportunities. Only 8% said that the Government had made them aware of tourism opportunities, 97% of respondents felt that the transport and tour operator sector offers the most opportunities, followed by the accommodation sector (47%), travel agencies (38%), eco-tourism ventures (38%), conference tourism (32%), food

and beverage and sports tourism (29%) respectively. Based on the information supplied by respondents, it is safe to say that respondents endorse the fact that a variety of opportunities exist in the tourism industry.

**TABLE 2. TOURISM OPPORTUNITIES**

<b>OPPORTUNITIES</b>		<b>TRUE</b>	<b>NOT TRUE</b>	<b>IRRELEVANT</b>					
Opportunities to start a new tourism business		76%	24%	0%					
Spatial Development Initiatives (SDI's)		38%	15%	47%					
Tourism grants offer new tourism opportunities		50%	41%	9%					
Government promotion for new opportunities		24%	73%	3%					
Programmes to assist new business ventures		59%	41%	0%					
				<b>Experience &amp; knowledge</b>	<b>Other tourism development</b>	<b>Family &amp; Friends</b>	<b>Government Awareness</b>	<b>Other</b>	
Opportunities to become an entrepreneur		88%	41%	29%	8%	0%			
	<b>Transport &amp; Tour operator</b>								
	<b>Accommodation</b>								
	<b>Travel Agents</b>								
	<b>Eco-tourism</b>								
	<b>Conference Tourism</b>								
	<b>Food &amp; Beverage</b>								
	<b>Sport Tourism</b>								
	<b>Other</b>								
Tourism opportunities		97%	47%	38%	38%	32%	29%	29%	5%

## THREATS

Although numerous opportunities exist for SMEs, some factors restrict their spontaneous growth in the South African tourism industry (Table 3).

TABLE 3. TOURISM THREATS

THREATS	TRUE	NOT TRUE	IRRELEVANT
A culture of entrepreneurship	53%	47%	0%
Possible low income	88%	12%	0%
Political and legal restrictions and deregulation	71%	26%	3%
Animosity of big business and authorities	29%	71%	0%
General economic climate	79%	21%	0%
Demographic changes	82%	15%	3%
Buildings and facilities	82%	15%	3%
Transformation	76%	18%	6%
Long hours and demanding work conditions	94%	6%	0%
Inadequately resourced and funded tourism industry	71%	29%	0%
Myopic private sector	61%	39%	0%
Limited development scope	82%	18%	0%
Inadequate training, education and awareness	74%	26%	0%
Lack of appropriate institutional structures	21%	67%	0%
Lack of objective advice	79%	3%	18%
Lack of support	15%	82%	3%
Lack of access to information	68%	32%	0%

Based on the information in Table 3 the greatest threats to tourism entrepreneurs are long hours and demanding work (94%), possible low income (88%), high rent of buildings and facilities, limited development scope and demographic changes (82%) respectively. The information above correlates well with the results of Table 1, which indicates the weaknesses. Potential entrepreneurs are not well informed or educated in terms of working hours and conditions of owning their own business. These aspects could lead to a situation where potential SMEs either do not try to start their own business, or where they quit too soon.

## CONCLUSIONS AND RECOMMENDATIONS

A growing number of tourists, their needs, and their spending in particular create opportunities. However, the diversity of needs requires specialisation, which makes it increasingly difficult for entrepreneurs to enter the industry. In order for tourism to grow more entrepreneurs, a concerted effort should be made to address the weaknesses currently experienced. One way of dealing with this problem is to establish a "one stop shop" for tourism entrepreneurs either at provincial or national level. Aspects (weaknesses) raised by this and similar research can then be handled in a coordinated manner.

Weaknesses found in small and medium tourism enterprises include a lack of purposeful planning, a lack of communication and information dissemination, poor control by entrepreneurs and unsatisfactory financial management. Entrepreneurs do not always realise that the above-mentioned factors can make or break a business. For this reason entrepreneurs have to be educated and trained on how to manage a business. It is important to have training in management and marketing skills because tourist needs are changing. All of the respondents in this research agreed that managerial competence is of the utmost importance in managing a tourism business.

A major problem that limits tourism development in South Africa is the raising of the necessary capital to start a tourism business. Firstly, entrepreneurs are not always aware of the type of funding that is available and secondly, these entrepreneurs do not always know where to access the funding. Thirdly, government wants to attract more SMEs from disadvantaged communities; however, these entrepreneurs need to be made aware of opportunities, which entails the implementation of an awareness programme, first of all, to address the issues raised above. Awareness programmes should be implemented by local and provincial governments together with non governmental tourism organisations like SATSA and FEDHASA who have practical experience. Fourthly, the literature review clearly suggests that for tourism entrepreneurs in South Africa to play a more meaningful role in the economy and to benefit from all the opportunities created by the tourism industry, these entrepreneurs have to be taken through the complete process of SME development. This implies not only training and funding, but also mentoring and after-care to ensure success. The latter is sadly lacking in the South African scenario. A recent study by Saayman (2004), who did an analysis of three government funded SME programmes in the North West province, revealed that the reason why SME's fail is because of a lack of mentoring and continued support.

## REFERENCES

- ANON. (1998a). A draft discussion document Department of Trade and Industry. Centre for Small Business Promotion. Hyperlink [<http://www.polity.org.za/govdocs/discuss/smme.html>]. Retrieved 14 May 2000.
- ANON. (1998b). South Africa: The plain English guide to SDIs and LDZs. *Mail and Guardian*, September 18.
- ANON. (2002). SMME News. Hyperlink [<http://home.intekom.com/emarket/s003.htm>]. Retrieved 7 November 2002.
- BENNETT, J.A. (2000). *Managing tourism services* (2<sup>nd</sup> ed.). Pretoria: Van Schaik.
- DANNHAUSER, J. (2002). Constraints in the South African SMME sector. Hyperlink [<http://www.emarket.co.za/s008.htm>]. Retrieved 4 November 2002.
- DEAN, G. (1999). Need for youth participation, says Soweto entrepreneur. Hyperlink [<http://www.travelinfo.co.za/>]. Retrieved: 14 April 2000.
- DE CONING, T. (1992). Transformational leadership in SMEs. *South African Journal for Entrepreneurship and Small Business*, 4(2): 52-60, November.
- DE KOCK, E. & SAAYMAN, M. (1999). *Practical guidelines for starting your own tourism business*. Potchefstroom: Institute for Tourism and Leisure Studies.
- DOTT, A. (2000). SATSA President's report. Hyperlink [<http://www.travelnow.co.za>]. Retrieved 14 July 2000.
- GEE, C.Y.; MAKENS, J.C. & CHOY, D.J.L. (1989). *The travel industry*. New York, NJ: Van Nostrand Reinhold.



- GEM (Global Entrepreneurship Monitor) (2002). *South African executive report*. Cape Town: Graduate School for Business, University of Cape Town.
- GODONGWANA, N. (2001). Eastern Cape Provincial Government Department of Economic Affairs, Environment and Tourism's Policy Speech. Hyperlink [<http://www.ecprov.gov.za/speeches/finance/2001/policyspeech.htm>]. Retrieved 7 November 2002.
- HARRISON, P.; TODES, A. & WATSON, V. (1997). Transforming South Africa's cities: prospects for the economic development of urban townships. *Development Southern Africa*, 14(3): 43-60, February.
- HEATH, E.T. (1993). Guidelines for a strategic marketing planning approach to regional and community tourism. Unpublished research report no. 36. Port Elizabeth: Institute for Planning Research, University of Port Elizabeth.
- KELLER, P. & KOCH, K. (1995). Die globalisierung des Tourismus. Eine Herausforderung für der Schweiz als traditionelles Tourismusland. *Die Volkswirtschaft*, 68(5): 16-22.
- KOH, K.Y. (1996). The tourism entrepreneurial process: a conceptualisation and implications for research and development. *The Tourism Review*, 4: 24-39.
- KUSCUS, J. (1996). Speech for finance and economic affairs, North West Province at the launch of the North West Provincial small, medium and micro-enterprises support programme at Brits town hall, 13 August. Hyperlink [<http://www.polity.org.za/govdocs/speeches/1996/sp0813.html>]. Retrieved 14 May 2001.
- LAMBRIS, P.; NAUDE, I. & PRELLER, F. (2000). Certificate in entrepreneurship skills. Module 1. Small Business Advisory Bureau. Potchefstroom: Faculty of Economic and Business Sciences, P.U. for C.H.E.
- LUND, F & SKINNER, C. (1999). Promoting the interests of women in the informal economy: an analysis of street trader organisations in South Africa. Unpublished research report, no. 19. Durban: Centre for Social and Development Studies, University of Natal.
- McGRATH, S. & KING K. (1996). *Learning to compete: African education, training and small enterprise development in the era of globalisation. Papers on education, training and enterprise, no. 1*. Edinburgh: Centre for African Studies, University of Edinburgh.
- OLIVIER, E. (2002). Opportunities for small, medium and micro-tourism entrepreneurs in South Africa. Unpublished MCom thesis. Potchefstroom: P.U. for C.H.E..
- PEARCE, D.G. (1985). *Tourist development*. New York, NJ: Longman Group.
- ROGERSON, C.M. (1997). SMMes and poverty in South Africa. Input report for the national project on poverty and inequality. Johannesburg: University of the Witwatersrand.
- ROGERSON, C.M. (2000). Emerging from Apartheid's shadow. South Africa's informal economy. *Journal of International Affairs*, 53(2): 677-695, Spring.
- SAAYMAN, M. (1997). *Entrepreneurs in tourism: where to now?* Potchefstroom: Institute for Tourism and Leisure Studies.
- SAAYMAN, M. (2000). *En route with tourism* (2<sup>nd</sup> ed.). Potchefstroom: Leisure Consultants and Publications.
- SAAYMAN, M. (2002). *Hospitality, leisure & tourism management*. Potchefstroom: Institute for Tourism and Leisure Studies.
- SAAYMAN, M. (2004). *Business development strategy: impact assessment study*. Potchefstroom: Institute for Tourism and Leisure Studies.
- SAAYMAN, M. & SAAYMAN, A. (1999). Globalisation and tourism: prospects for the South African economy. Unpublished paper presented at the Academy of Business and Administrative Sciences (ABAS) international conference, Spain, 12-14 July.
- SAAYMAN, M. & SLABBERT, E. (2001). Tourism entrepreneurs: opportunities and threats. A South

- African perspective. Unpublished paper presented at SAESBA, international conference, Croatia, 18-20 April.
- SATOUR (1995). *The world tourism picture*. Pretoria: SATOUR.
- SCHWENKE, J. (2000). The sky's the limit when you're small. Hyperlink [http://www.mweb.co.za/jobs/Entrepreneurship/features/000131e.asp]. Retrieved 18 July 2000.
- SHERIDAN, E. (2000). Industry commitment promises to take SA tourism to new heights. Hyperlink [http://www.rapidtp.co.za]. Retrieved 14 July 2000.
- SOUTH AFRICA (1995). *Department of Trade and Industry. White Paper on small business development*. Pretoria: Government Printer.
- SOUTH AFRICA (1996). *Department of Environmental Affairs and Tourism. White Paper on tourism*. Pretoria: Government Printer.
- SWART, S. (1997). Legislative restrictions on the South African tourism industry. Unpublished MCom thesis. Potchefstroom: P.U. for C.H.E.
- SWART, S. & SAAYMAN, M. (1997). Legislation restrictions on the tourism industry. A South African perspective. *World Leisure & Recreation*, 39(1): 24-34.
- VAN DER MERWE, P. (1999). A training analysis of the tourism industry in the North West province. Unpublished MA thesis. Potchefstroom: P.U. for C.H.E.
- VISAGIE, J.C. (1997). SMMEs challenges in reconstructing South Africa. *Management Decision*, 35(9/10): 656-667.
- VISSER, K. (1997). *Primary research and literature survey on enterprise education in the Western Cape, South Africa. Papers on education, training and enterprise, nr.8*. Edinburgh: Centre for African Studies, University of Edinburgh.
- WEFA (1993). *Measuring the size of the global travel and tourism industry*. Brussels: The World Travel and Tourism Council.
- WHITE PAPER ON TOURISM (See South Africa 1996).
- WHITE PAPER ON SMALL BUSINESS (See South Africa 1995).
- WTTC (1995). *World Travel and Tourism Council. Travel and tourism: a new economic perspective*. Oxford: Elsevier Science.
- ZULU, B.H. (1998). Urban Tourism – a solution to Third World underdevelopment problems? Soweto case study. Unpublished paper, Department of Geography & Environmental Studies. Johannesburg: University of the Witwatersrand.