

**THE ROLE OF PROVINCIAL GOVERNMENT SUPPORT IN THE  
DEVELOPMENT OF BLACK-OWNED SMALL TOURISM BUSINESSES IN  
THE CITY OF CAPE TOWN**

**by**

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## DECLARATION

I declare that the study titled *The role of provincial government support in the development of black-owned small tourism businesses in the City of Cape Town* is the result of my own work, which has not been submitted before for any degree or examination in any other university or campus, and that all sources used or quoted have been indicated and acknowledged as complete references.

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Signature:.....

Date: June 2005



## ABSTRACT

Since 1994, tourism has become one of the most benefited industries among the overall of the South African economy. However, the industry is still far from being an example of transformation. The tourism industry in South Africa is still dominated by white-owned large enterprises, leaving limited space for the development of black-owned small tourism businesses. The existing literature identifies that government support (i.e. skills development programmes and financial support) represents a key variable regarding small tourism business development, specifically among black entrepreneurs (i.e. Indian, Coloured and African).

This exploratory study evaluates the role of provincial government support in the development of black-owned small tourism businesses in the city of Cape Town. The study briefly examines the historical background of South Africa's tourism industry with particular references to the emergent SMME sector. A literature review of recent publications from national and international frameworks was conducted. Primary data were gathered by means of semi-structured interviews and questionnaires.

The study surveyed 46 black-owned small tourism businesses in the city of Cape Town. The findings indicated that despite promoting small, micro and medium-sized enterprise development among the previously disadvantaged communities, the provincial government has had a limited impact largely because of the lack of awareness and limited access to support programmes among the small businesses surveyed.

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## **KEY WORDS**

Tourism

Provincial government

Government support

Economic development

Small business policy

Small tourism business

Skills development

Financial support

Black economic empowerment

Cape Town



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## ACRONYMS

BBSDP	Black Business Suppliers Development Programme
BEE	Black Economic Empowerment
BP Ltd	Business Partners Limited
CCDI	Cape Craft and Design Institute
CIE	Centre for Innovation and Entrepreneurship
CPUT	Cape Peninsula University of Technology
CTRU	Cape Town Routes Unlimited
DBSA	Development Bank of Southern Africa
DEAT	Department of Environmental Affairs and Tourism
DEDT	Department of Economic Development and Tourism
DMO	Destination Marketing Organization
DTI	Department of Trade and Industry
GEM	Global Entrepreneurship Monitor
GDP	gross domestic product
GGP	gross geographical product
ITESP	Integrated Tourism Enterprise Support Programme
Khula	Khula Enterprise Finance
NEF	National Empowerment Fund
Ntsika	Ntsika Enterprise Promotion Agency
PDCs	previously disadvantaged communities
SATSA	South African Tourism Services Association
SETA	Sector Educational Training Authorities
SMEDP	Small Medium Enterprise Development Programme
SMMEs	small, medium and micro-sized enterprises
TEA	total entrepreneurial activity
TEP	Tourism Enterprise Programme
TLP	Tourism Learnership Programme
Umsobomvu	Umsobomvu Youth Fund

## CHAPTER 1: INTRODUCTION TO THE STUDY

### 1.1 INTRODUCTION

In a developing economy, small-scale industries play a significant role in economic development, employment creation, regional development, and income generation processes, and in helping to promote change (*White Paper*, 2001). Tourism, offers the opportunity for development and socio-economic growth. As a sector, it is the world's largest generator of jobs owing to its labour intensive nature (Sharpley and Telfer, 2002).

Since 1994, South Africa has become one of the fastest-growing tourist destinations among developing countries (Lubbe, 2003; Rogerson, 2001; *White Paper*, 2001). There are many opportunities within the tourism sector. However, in the small and medium-sized sector, factors such as lack of infrastructure and support services have affected the industry's performance (Morrison and Teixeira, 2004; Rogerson, 2002; *White Paper*, 2001).



Despite South Africa's significant economic growth since 1994, there are still millions of people that live below the poverty line. Historically, South Africa's economy has been dominated by large enterprises and a large public sector, which has overshadowed the development of small, medium and micro-sized enterprises (Driver, Wood, Segal and Herrington, 2001).

According to Rogerson (in King and McGrath, 1999:83), major policy significance is attached to the promotion and support of the small, medium and micro-sized enterprise (SMME) sector in post-Apartheid South Africa. Authors like Mkandawire (in King and McGrath, 1999:33) suggest that the state needs to play a developmental role, where the development of SMMEs presupposes a proactive and interventionist policy and state capacity to pursue such policies. However, the reality shows that the public support for small enterprises is hampered by "poor quality" and "lack of reach" (Orford, 2004:13).

As Black Economic Empowerment (BEE) becomes a major focus for the Government, the fact is that the existing regulations regarding entrepreneurial development are far beyond fulfilling that goal. Black entrepreneurs struggle to succeed in a very competitive market.

Despite the existence of literature regarding the promotion of entrepreneurial development in tourism as a key issue for boosting the industry's development, there is a lack of academic literature in the South African context<sup>1</sup>. While for a significant number of authors such as Morrison and Teixeira (2004) and Rogerson (2001; 2002), the relationship between government support and SMME development is undoubtedly important, there is a lack of in-depth analysis on how government support affects the development of black-owned small tourism businesses in post apartheid South Africa.

This research project is intended to be a path towards understanding the role of government support in the development of small black-owned tourism businesses in the new South Africa, with a focus on Cape Town. It is also intended to enhance the existing literature on the topic and to encourage other researchers to analyze and assess the theoretical framework regarding the tourism industry and economic development.

## **1.2 MOTIVATIONS OF THE STUDY**

As South Africa becomes one of the fastest-growing destinations among developing economies, the tourism industry has been identified as one of the sectors with higher prospects for growth and therefore employment creation (*White Paper*, 2001). The tourism industry has a wide range of economic activities that can contribute to employment creation through labour-intensive practices. Small enterprises have found a space and opportunity to succeed within the industry. In the *White Paper* (1996), officials

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<sup>1</sup> An extensive and thorough search of academic journals and academic publications has been conducted by means of electronic data bases such as EbscoHost, Ingenta, Emerald, Sabinet, Science Direct and Aleph Library Catalogue. These databases can be found at the University of the Western Cape Main Library.

identify the development of the tourism industry as a great opportunity for previously disadvantaged communities to participate in the mainstream of the economy.

It is important to notice the role of government in supporting the development of small, medium and micro-sized enterprise. Government is not only involved with policy-making, it is also involved in the promotion of entrepreneurship by means of support programmes and funding (Mkandawire in King and McGrath, 1999). In South Africa at national and provincial levels, the government has had a heavy involvement in the policy making and the creation of programmes that support SMME development (Orford, 2004). Despite these efforts, factors such as, lack of awareness among entrepreneurs and the lack of financial support to SMMEs, contribute to minimize the impact of the government's involvement on the development of small enterprises and start-up entrepreneurs (Orford 2004). However, this does not imply that there has not been positive feedback and results from entrepreneurs. This research project is intended to explore the role of provincial government (i.e. Western Cape) support in the development of black-owned small tourism businesses in the City of Cape Town.



### **1.3 AIMS OF THE RESEARCH**

This exploratory study aims to unlock issues relating to the role of government support in the development of small black-owned tourism businesses in South Africa, with a focus on Cape Town. Four academic aims have been highlighted and are listed below:

- To briefly examine the historical background of South Africa's tourism industry
- To assess entrepreneurial development within the tourism industry in the South African context.
- To evaluate government support on black-owned small tourism businesses in Cape Town.
- To examine appropriate usage of incentives in a sample of black entrepreneurs, within the tourism industry in Cape Town.

### **1.4 RESEARCH QUESTIONS**

The research questions constitute the main focus of the study. This study intends to examine the role of Provincial Government support in the development of black-owned small tourism businesses in Cape Town. In order to assist the research process, the following questions have been addressed:

1.4.1 What are the current trends/developments regarding small tourism development among previously disadvantaged groups in Cape Town?

1.4.2 What are the key challenges impacting on tourism development among previously disadvantaged communities?

1.4.3 How have black-owned small tourism businesses in Cape Town been affected by the provincial government?

## **1.5 DELIMITATION OF THE STUDY**

This is an exploratory study which intends to uncover possible theoretical principles for future investigation regarding the role of government support in black-owned small tourism businesses in the City of Cape Town. The study uses the existing literature as a framework for the empirical work. The research sample is limited to Cape Town and includes only small businesses that are operating within the tourism industry. This study deals with aspects such as policy issues and government support as key variables, and Black Economic Empowerment (BEE) by means of entrepreneurial development.

## **1.6 DEFINITION OF TERMS**

The study analyses issues such as government support and black-owned small business development. The terms mentioned above are often used in both the academic and popular literature. However, they might differ from researcher to researcher and from framework to framework. Therefore, it is necessary to define and explain the main concepts used as part of the literature survey and analysis. The following definitions are vital for a better understanding of the key words and other concepts used in the study:

- Tourism business sector: all stakeholders in tourism with a financial investment in tourism, comprising individuals and businesses that bear the risk of tourism investment.
  - Tourism industry: all those firms, organizations and facilities, which are intended to serve the specific needs and wants of tourists.
  - Emergent SMMEs: small, micro and medium-sized enterprises owned and/or operated by the previously disadvantaged population groups that are entering the market.
  - Black Economic Empowerment: an integrated and coherent socio-economic process located within the context of national transformation aimed at addressing the imbalances of the past by seeking to substantially and equitably transfer ownership, management and control of South Africa's financial and economic resources to the majority.
- 
- Provincial government support: all those activities and actions undertaken by a Provincial Government in order to promote development by means of skills development and access to financial resources among others.
  - Government financial institutions: all organizations of a financial nature that serve as government intermediaries, which provide financial aid to small and medium sized enterprises (e.g. KHULA).
  - Previously disadvantaged communities (PDCs): those members of society who, through discriminatory policies of the past, have been deprived of equal access to a range of opportunities and services (e.g. are Indians, Coloureds and Africans)

- Black-owned small tourism business: those small, micro and medium-sized enterprises within the tourism sector that are owned by Indians, Coloureds or Africans.

## **1.7 METHODOLOGY**

Within the international literature on tourism, surveys and case study methodology have been widely used by researchers in the field. The use of quantitative measures have a place in comprehensive survey work in small tourism and hospitality firms, although the findings can be limited in their communicative capacity in comparison to qualitative approach (Morrison and Texeira, 2004). In their study, Lerner and Haber (2000) make use of quantitative methods by surveying a number of small tourism businesses in an Israeli tourist destination. They surveyed a wide range of small businesses that were directly and indirectly related to the tourism industry. Although their research has a strong presence in the current study, it is important to notice that it was undertaken in a different context and under different circumstances compared with the South African context.



This study follows a similar approach to that of by Lerner and Haber (2000). However, the empirical research undertaken in the current study combines both, quantitative and qualitative research methods. The research survey involves the collection of data from a sample, which is representative of the population identified as the object of analysis.

### **1.7.1 Sampling**

Small travel agencies, tour operators, bed and breakfast establishments, transport and catering services are included in the sample group of small tourism businesses. This sample group is selected from the black-owned small tourism businesses that are currently operating in Cape Town. The term black-owned, has been chosen by the researcher in order to identify previously disadvantaged communities in a generic context.

Cooper and Schindler (1998) maintain that the basic idea of sampling lies in the selection of some elements in a population in order to draw conclusions about the entire population. The criteria for the sample selection procedure in this study, includes: size of the business, the time the business has been operating, physical location of the business and race composition. Regarding the size of the business, businesses should not be bigger than 50 employees. On the other hand, the business should have at least one-year minimum of operations, in order to have a fair assessment of the objectives and research questions. In this study, the universe is small, with a total of 65 small black-owned tourism businesses currently registered with the Western Cape Business Opportunity Forum (WECBOF) membership database. Authors like Cooper and Schindler (1998) emphasize on the importance of representativeness regarding sample size. In other words one can say that the bigger the universe the smaller the sample size and vice versa. Based on this information, the researcher will ensure that the sample size will comply with the requirements of survey sampling.



### **1.7.2 Survey procedure**

In their study, Lerner and Haber (2000) develop a comprehensive structured questionnaire, which was pilot-tested by means of face-to-face interviews with a group of respondents. In order to ensure high response rate, phone calls were made to the owner or partner of each small venture (i.e. small tourism business) selected as part of the sample group. The current study follows a similar procedure, although there are variations in order to adapt to the context and the research questions.

In order to gather the data needed for the analysis, the researcher uses a structured questionnaire. Baker (2003) maintains that structured questionnaires are the principal means used for collecting data by means of a survey of a designed population or sample. This questionnaire combines closed-ended questions, Likert-scale and open-ended questions. A combination of the three types of questions provides a wider opportunity of getting more relevant and in-depth information (Baker, 2003). Questionnaire design must

fully answer all the data requirements that have been stipulated in the research questions, in order to reduce costs and non-response rate (Webb, 2000).

The questionnaire is pilot-tested before application:

- To know if the respondents are able to understand the contents.
- To incorporate comments and suggestions from the respondents into the final questionnaire (Co, 2003).

After pilot-testing the questionnaire the researcher will be able to start the empirical work. The timetable is organized according to the availability of the respondents. In addition; all respondents that are part of the sample selected will be asked to fill the questionnaire. The questionnaire will be distributed via email and telephone calls will be made to increase the response rate. The information obtained will be treated confidentially as stated in the questionnaire. The researcher must comply with the research ethics requirements and only act if it is approved by the business owner or other person in charge. In addition, secondary sources of information such as brochures, reports, magazines and other publications are used in order to support the data obtained by using primary sources of data collection.

## **1.8 SIGNIFICANCE OF STUDY**

The study will contribute to the disclosure of important issues involving the role of provincial government support in the development of black-owned small tourism businesses. The study also aims to contribute to the literature on small tourism development in a South African context, specifically in the Cape Town scenario.

## **1.9 STRUCTURE OF THE STUDY**

This Chapter introduces the current study by providing an overview of the motivations of the study and aims of the research. In addition, the research questions were elaborated

and presented in full detail. Other aspects discussed in the chapter are the delimitation of the study, definitions of terms, methodology and significance of the study.

The remainder chapters of the study are structured as follows:

Chapter 2 Literature review: In this chapter, the existing literature on tourism and small tourism development is reviewed, in order to identify the major themes regarding the research topic. This literature survey focuses on the key words previously identified in Chapter 1.

Chapter 3 Research Methodology: The core aspects regarding the research method for this study, as well as the research design and an overview of respondents are presented in this chapter.

Chapter 4 Research results and discussion: The researcher presents the findings obtained from the evidence (i.e. data collected). The outcomes are compared to the major themes identified in the literature in previous stage of the study.

Chapter 5 Summary, Conclusions and Recommendations: The research project is summarised, followed by the conclusions drawn from the study. The chapter concludes with recommendations, based on the findings of the study.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 INTRODUCTION**

As was mentioned in the previous chapter, the literature regarding small, micro and medium-sized enterprise development in South Africa has a shortage of academic reading, specifically in the context of tourism. However, the existing literature raises critical issues surrounding the topic object for further analysis.

This chapter focuses on the presentation and discussion of the different viewpoints and perspectives from different authors and researches in relation to the research topic. These arguments together contribute to the theoretical framework, which constitutes the body of research required to undertake this study.

This literature review covers the different aspects and issues regarding entrepreneurial development, tourism and the role of government support (i.e. skills development programmes and financial support). The research is limited to the Cape Town context. However, the literature survey reviews articles (published and unpublished documents) relevant to the research topic, in both the South African and international contexts. This review contributes to understand where the gaps in the literature are and why it is necessary to undertake this research project.

### **2.2 GLOBAL ENTREPRENEURIAL DEVELOPMENT**

According to Co (2004), the promotion of small, micro and medium sized-enterprises (SMMEs) has become an important strategy for economic development for most countries. In Africa and elsewhere, the continued worsening of the unemployment crisis, has led policy makers to bank on the SMME sector (Haan in King and McGrath, 1999). Mead (in King and McGrath, 1999) follows the same argument in his paper by suggesting that these enterprises are receiving increasing attention among policy makers

and scholars in developing countries where fiscal pressures constrain the growth of public sector employment.

Globally, SMMEs are becoming more than just a source of employment creation. According to Orford, Herrington and Wood (2004), a shift in thinking has placed entrepreneurship at the centre of attempts to understand the forces that drive economic growth, as distinct from previous emphases on, for example, technology and large established firms. In the same report, the authors argue that despite the complexity of the relationship between entrepreneurship and economic growth, entrepreneurial capability is a necessary ingredient in a country's capacity to sustain economic growth.

### **2.3 CHALLENGES FOR SMME DEVELOPMENT IN THE DEVELOPING WORLD**

Although entrepreneurship is widespread all over the world and considered a key source for growth and employment creation, there are several challenges that SMMEs face, particularly in the developing world (Martins and Van Wyk, 2004; Orford, *et al.*, 2004; Rogerson, 2001; Mead, in King and McGrath, 1999). The literature on small business development offers a range of issues that consistently characterize the difficulties faced by these enterprises (Orford, *et al.*, 2004; Page, Forer and Lawton, 1999). Small businesses often find it difficult to grow or just evolve from start-up level to a new and even established firm, due to a series of conditions that are imposed by the macro-environment such as a highly competitive environment, lack of access to finance and lack of Government support (Foxcroft, Wood, Kew, Herrington and Segal, 2002).

Orford, *et al.*, (2004) and Orford (2004) identify five important challenges that SMMEs face throughout their way. These challenges are listed below:

- The existence of gaps regarding the policy for SMME development, which involve in some cases excessive patterns of regulation that might inhibit the performance of small businesses.
- The existence of a highly competitive environment, dominated by large enterprises.

- The lack of business linkages/networks between small businesses.
- The limited access to financial resources from financial institutions (i.e. banks) and government intermediaries.
- The lack of entrepreneurial skills often associated with level of education and access to skills development programmes.

These challenges are added to the list of constraints that inhibit the performance of SMMEs in both the developed and developing worlds. However, Mead (in King and McGrath, 1999) says that the role of SMMEs can not be overlooked by simply considering the significant number of these enterprises that make their contribution by helping people to survive, when nothing better is available. Instead, scholars, governments and other groups should analyze the effectiveness of SMMEs in enabling significant numbers of people to move up and out of the poverty ladder. In general words, SMMEs should be able to operate within the market economy under fair conditions, where the constraints that might contribute to their failure are minimal.

#### **2.4 OVERVIEW OF ENTREPRENEURIAL DEVELOPMENT IN POST-APARTHEID SOUTH AFRICA**

In post-apartheid South Africa, entrepreneurial development constitutes one of the key challenges of the current government (Orford, *et al.*, 2004). The previous government had throttled the entrepreneurial spirit needed to transform SMMEs into profit-making ventures (Bhattacharya, 2004). In other words, the lack of entrepreneurial development among previously disadvantaged communities in South Africa comes as part of the legacy of the apartheid regime (Brundin, Isaacs, Visser and Wigren, 2005; Visser, 1997).

According to Orford (2004) South Africa's total entrepreneurial activity (TEA) index for 2004 was 5.4%, which is significantly and dramatically lower than the average of 21% among the other developing countries included in the *GEM* study. The *GEM* results for 2004, suggest that South Africa's ranking has remained the same or constant since its inclusion in 2001. However, according to Rogerson (in King and McGrath, 1999:83) "a radical policy shift has occurred from the apartheid period when the SMME sector was

either largely neglected by policy makers, or in the case of black-owned enterprises, actively discouraged by repressive measures”.

In the annual review of the sector for 2003, the Department of Trade and Industry (DTI) commented that the static rate of formal small business creation suggests that there is little progress from survivalist micro enterprises to more formal enterprises (Wadula, 2005). According to Njobeni (2004), the SMME sector in general accounts for more than 50% of employment and with better access to finance and other resources, this figure could be higher.

When assessing how “entrepreneurial” South Africa is, one has to look at the fact that in ten years of democracy, the government has drawn and gradually improved SMME policy in order to boost entrepreneurship. The two main driving forces in this regard are the Presidents’ Conference on Small Business in 1995 and the National Small Business Act. Foxcroft, *et al.* (2002) suggest that overall the national small business policy is well intentioned, but acts in isolation of other policies that affect small businesses. SMMEs access to finance and skills development programmes remain a recurrent challenge and constraint in the South African context (Wadula, 2005, 2004; Bhattacharya, 2004; Orford, *et al.*, 2004; Njobeni, 2004; Rogerson in King and McGrath, 1999).

Based on the findings of the consecutive *GEM* reports<sup>2</sup>, one can perceive that in South Africa, population group is a key element associated with entrepreneurial activity. White-owned businesses still have advantages over black-owned, which can be regarded as a contradiction if one looks at the demographics of the nation (Rogerson in King and McGrath, 1999). However, the promotion of SMME development among previously disadvantaged communities remains a core aspect in the agenda of the democratic government.

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<sup>2</sup> This refers to the four *GEM* South African Reports that have been published consecutively. The first South African *GEM* was published in 2001. The last South African *GEM* was published in 2004.

The tourism sector has become one of the most influential and important sectors regarding entrepreneurship in South Africa (Mahony and Van Zyl, 2002; Nel, 2001; *White Paper*, 2001; Rogerson, 1997). Tourism has become the *invisible* export sector for many economies, in order to fulfil their overriding economic goals of wealth creation, employment generation and enhancement of population's living standards (Gedye, 2004; Rogerson 2002, Binns and Nel, 2002; *White Paper*, 2001; Goudie, Khan and Kilian, 1999). In a recent interview, the chief of Cape Town Routes Unlimited (i.e. the Western Cape's Destination Marketing Organization) forecast that most of the growth and transformation of the tourism industry would come from SMMEs, with special emphasis on black-owned enterprises (D'Angelo, 2004).

## **2.5 TOURISM DEVELOPMENT IN POST-APARTHEID SOUTH AFRICA: MAIN POLICY IMPLICATIONS**

Worldwide, tourism has been considered as an industry that has the potential to create small businesses and therefore jobs (Morrison and Texeira, 2004; Rogerson, 2001; *White Paper*, 2001). According to Lerner and Haber (2000:79), "the tourism industry contributes to many economic processes, such as the fostering of regional development, the creation of new employment, the diversification of the national economy, increasing public revenue, improving income levels, and the balance of payments". It represents, if not the first, at least among the three most important sources of revenue for many economies (*White Paper*, 2001; Sharpley and Telfer, 2000; Brohman, 1996). Therefore, tourism can be seen as a potential engine of growth.

In South Africa, the tourism industry represents the only significant sector (besides mining or manufacturing) that has achieved reasonable growth levels during the past years (*White Paper*, 2001). "After the first democratic elections and with the lifting of sanctions new tourism opportunities opened up, for example, increased positive international reporting on the country as a tourist destination, more airlines are flying to South Africa, and increased cooperation between southern African countries" (Lubbe, 2003:27).

According to Mahony and Van Zyl (2002) the travel and tourism industry contributed about 3.6 per cent to the gross domestic product (GDP) in South Africa during the economic year 2000-2001. The *White Paper* (2001) highlights how South African tourism has increased substantially during the five years preceding the report and how by end of 1998 at a national level, tourism had contributed approximately 8.2 per cent to the GDP and employed about 7 per cent of the country's workforce. However Rogerson (in King and McGrath, 1999) argues that despite the positive results over the years, there are still several constraints such as access to market, development infrastructure in previously disadvantaged areas, industry segmentation and tourist supply.

The emphasis on the tourism sector must also be viewed as part of the fundamental restructuring of the South African economy, away from one dominated by primary production, such as mining and agriculture, towards a more diverse economy in which the services/tertiary sector contributes increasingly to the GDP (Mahony and Van Zyl, 2002).



However, Kirsten and Rogerson (2002:31), describe the “large firm dominance” versus “small enterprise exclusion” in the tourism sector, where it is argued that foreign domination and external dependency seriously reduce tourism's potential for generating broadly based growth, as well as the net financial advantages that the industry brings to developing economies.

Nationwide, tourism has experienced a significant growth since 1980; however there are several constraints to tourism growth such as security concerns, inadequate resources and funding, a seasonal market, air travel and infrastructure constraints among others (*White Paper*, 2001). In the Western Cape tourism adds about R20 billion a year to the gross geographical product (GGP) and nearly ten percent of employment (D'Angelo, 2004).

Aspects such as social equity, environmental integrity, black economic empowerment, co-operation and partnership and sustainability are among the main policy implications regarding tourism development (*White Paper*, 2001). Although tourism policy includes

the aspects mentioned above, it does not fully address the issues surrounding tourism development, specifically among previously disadvantaged communities.

Rogerson (in King and McGrath, 1999) believes in the importance of small business support as a critical policy agenda in post-apartheid South Africa. Government officials and policy-makers often tend to overlook the existing gaps within the industry and therefore are not aware of the critical aspects that serve as the background for policy drawing, such as limited involvement of PDCs (i.e. previously disadvantaged communities), institutional fragmentation, limited co-operation and infrastructure constraints (*White Paper*, 2001; Rogerson in King and McGrath, 1999). In the literature one finds that while policy-makers think they are addressing the developmental issues, the beneficiaries (i.e. population and businesses) are not totally aware of the advantages and disadvantages of the policy.

## **2.6 SMME SECTOR WITHIN THE TOURISM INDUSTRY: KEY IMPLICATIONS AND CHALLENGES**

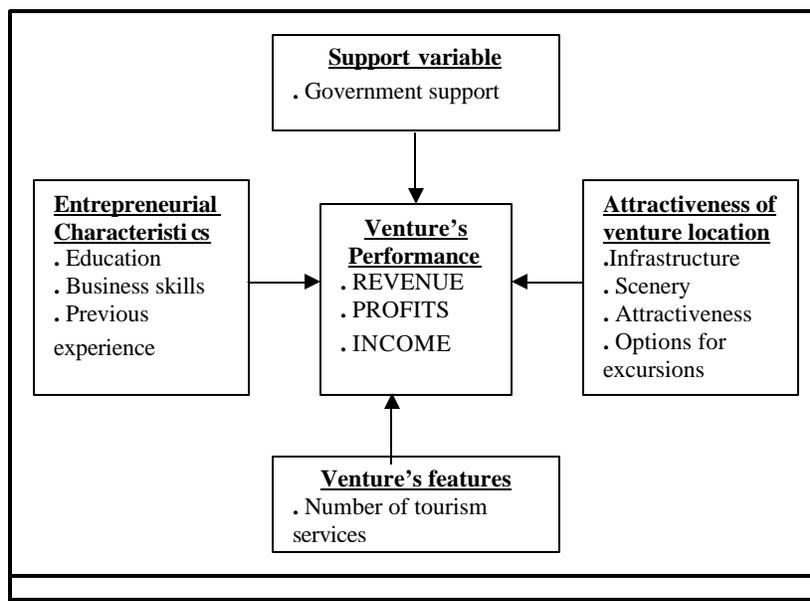
Although there are many opportunities for unlocking tourism development in South Africa, there are several factors that inhibit the success of processes and growth in the SMME sector. Among these factors, policymaking is one of the most important. Rogerson (2002:109) suggests that in order to attain the objectives of economic growth through competitiveness on the one hand, and employment generation and income redistribution on the other, increased policy attention must focus on the promotion of the country's SMME economy. After 10 years of democracy the facts show that 81 per cent of tourism businesses are still white-owned, while 15 per cent are black-owned in South Africa, which represents an indicator of the lack of transformation within the industry (Gedye, 2004:20).

Although there has been an increase in the number of small and medium-sized businesses in the tourism industry since 1996, there is still insufficient participation from previously disadvantaged groups (*White Paper*, 2001). Based on the lack of access they have to the mainstream of the tourism economy and the lack of support from government, financial

institutions and large tourism enterprises, the previously disadvantaged communities remain “neglected” under the new South Africa (Lubbe, 2003:28). Goudie, *et al.* (1999) argue that the *black spaces* of South Africa have largely been *terra incognita* for the tourism industry until 1994, and consequently, black South Africans have been given little opportunity to participate.

The *White Paper* (2001) states that Black Economic Empowerment (BEE) is a core element on the tourism development strategy that contributes to speed up the process of transformation by means of SMMEs promotion and incentives. Orford, *et al.*, (2004) consider the relationships between entrepreneurial development and BEE, under the basis of understanding the economic potential of black people who were discriminated against in the past.

Lerner and Haber (2000) present an integrated model (see Figure 2.1) that involves eight major factors that influence the performance of small tourism businesses. These factors are financial support, government support, education, entrepreneurial background, business skills, infrastructure, location and bundle of services offered by the business. Authors such as Komppula (2004); Morrison and Teixeira (2004); Morrison (2003) and Rogerson (2001; 2002) have also identified the above factors which are considered key influences in small tourism business development and performance.



Source: Lerner, M, Haber, S. 2000. Performance factors of small tourism ventures: the interface of tourism, entrepreneurship and the environment. *Journal of Business Venturing*. 16(1):77-100.

Figure 2.1 Integrative Model for small tourism business development and performance

Lerner and Haber (2000) state that entrepreneurial and managerial skills are key elements for the success of a small business venture. Also, they identify the role of government support as an engine for development of small tourism businesses but not in isolation, which is translated into the participation of private sector and financial institutions. Although their framework is presented within the Israeli context, the evidence from different authors shows that these factors are in general impacting on the success or failure and development of small tourism businesses. However, according to Wilken (1979), governments' actions substantially influence the economic and non-economic opportunities essential to the creation of the conditions that lead to the development of business ventures. On the other hand Lerner and Haber (2000) argue that the above frame is no less true of state intervention in tourism: "whether the tourist development is encouraged or blocked, depends very much on the policy of the government".

According to Orford, Wood, Fischer, Herrington and Segal (2003) in South Africa, education and training system was regarded by experts as the most important limiting factor for entrepreneurship in 2001 and 2002, while in 2003, financial support was regarded as the biggest problem facing entrepreneurs in general. However, other factors such as low self-esteem and lack of business network/integration constitute key aspects on SMME development. Orford (2004) maintains that lack of self esteem (confidence) among entrepreneurs has a negative impact on their ability to start a business. In addition, Rogerson (1999 in King and McGrath), suggests that entrepreneurial education in previously disadvantaged schools, could have a remarkable impact on boosting self-confidence levels.

On the other hand, business networks/integration between large enterprises and SMMEs, contribute to growth opportunities. However, in South Africa, large enterprises lack a culture of cooperating with small firms, where most corporate responsibility for SMME development remains at the level of rhetoric (Rogerson in King and McGrath, 1999). In addition, Orford (2004) maintains that the government should create better conditions for effective business linkages between large enterprises and small firms.

## **2.7 GOVERNMENT SUPPORT: KEY VARIABLE FOR SMME DEVELOPMENT**

In the SMME literature, government support has been cited as a crucial success factor for the development of these enterprises (Co, 2004; Morrison and Texeira, 2004; Rogerson, 2002; Lerner and Haber, 2000; Rogerson in King and McGrath, 1999). According to Havenga (2001) government represents a key player in minimizing uncertainty within the competitive market, where small enterprises operate. Mkandawire (in King and McGrath, 1999:33) argues that countries can promote or support SMMEs on both the supply and demand-side of the spectrum, although the values underpinning the support for small enterprises vary from *laissez-faireist* to a quest to reinforce survival strategies for the poor.

According to Lerner and Haber (2000), the role of government support can influence the economic and non-economic opportunities that are essential to the creation of the conditions for developing small businesses. Hall (in Lerner and Haber, 2000) maintains that governments provide a general economic framework, which actively encourages growth and at the same time removes unnecessary restrictions or burdens.



In the South African context, the government has been trying to put more support structures in place for SMME development, but they have not been successful (Basardien, 2003). However, contrasting this view, Kaplan (2004:219) argues that the government has focused on meeting the country's considerable growth, development and transformation goals by launching progressive development policies that have been drafted towards transforming all spheres of the economy including tourism over the last ten years.

Orford (2004:13) suggests that the government needs to radically rethink the way in which support for SMMEs takes place in South Africa, by limiting its role as a facilitator of business development. On the other hand Njobeni (2004) argues that provincial governments should have the development of small businesses at the centre of their integrated development plans and entrepreneurs should be aware of them.

One of the elements within government support is the lack of awareness among entrepreneurs regarding skills development programmes and financial support. In the GEM reports, this has been a constant element, where awareness and use of government services are extremely low. An interesting aspect is that government has invested considerable resources into supporting small enterprises, without having a higher impact on SMMEs (Orford, 2004).

However, in their framework Lerner and Haber (2000) show that those ventures (i.e. small tourism businesses) that received support from government and other external sources were more likely to perform better than those without support. Government support can be analyzed from two perspectives namely: a) government policy; and b) government financial and advisory services (Morrison and Teixeira, 2004; Lerner and Haber, 2000).

One of the challenges of the government is the Black Economic Empowerment (BEE) issue. In the South African context, one cannot analyze entrepreneurial development without addressing black empowerment (Rogerson in King and McGrath, 1999; Foxcroft, *et al.*, 2002). As argued by Njobeni (2004), it is time for strong government intervention regarding BEE within the SMME sector. Black-owned small businesses are more likely to struggle or fail compare to white-owned SMMEs. This is not a secret in the South African context, where the development of self-employment opportunities among previously disadvantaged people has been highly limited and inhibited by the legacy of the past (Bhattacharya, 2004). Lack of skills, finance and access to markets, are among the aspects that contribute to inhibiting the development of SMMEs among previously disadvantaged individuals (Njobeni, 2004).

From a tourism perspective, one finds that government structures such as the provincial Department of Economic Development and Tourism (DEDT) and the national Department of Trade and Industry (DTI) have been working towards economic growth through supporting SMMEs and promoting BEE, among others (*Cape Gateway*, 2005). The tourism sector offers the opportunity of unlocking entrepreneurial potential among

previously disadvantaged communities. In a recent interview the minister of Environmental Affairs and Tourism stated that ownership, procurement, skills development and employment equity, are important dimensions of the transformation process within the tourism industry that need to be taken into account (Gedye, 2004). In addition, BEE within the tourism sector it is also implemented through government procurement, which can be translated into giving opportunity to black-owned businesses to have a better and fair share of the market.

## **2.8 SKILLS DEVELOPMENT PROGRAMMES FOR SMMEs IN THE SOUTH AFRICAN CONTEXT: A TOURISM PERSPECTIVE**

In the South African context there are two key agencies that have been devoted to supporting SMMEs: the Ntsika Enterprise Promotion Agency and Khula Enterprise Finance (Orford, 2004:23). The Department of Trade and Industry (DTI) was responsible for establishing the agencies mentioned above. Both Ntsika and Khula were established as wholesale agencies operating through a network of retail implementing agencies. Programmes promoting SMMEs are mostly initiated and controlled by the DTI and its agencies, which are concerned with incentives schemes to promote specific issues such as economic empowerment and venture capital (Martins and Van Wyk, 2002).

Small, medium and micro-sized enterprises have an important role to play in enhancing economic and growth and creating employment. In order for the country to compete globally, it must have a well-skilled and productive workforce (Martins and Van Wyk, 2004). In this regard, Orford (2004) highlights the importance of education in the developing the appropriate skills base for an entrepreneurial country. Skills development programmes should focus on developing and enhancing entrepreneurial skills, such as effective interpersonal and communication skills, financial and strategic planning (including business plans), marketing and consumer behaviour, computer literacy (Orford, 2004).

Bhattacharya (2004) suggests that many development programmes from government, as well as private institutions in South Africa aim to promote and create capable

entrepreneurs who will be able to identify and exploit market opportunities. The Skills Development Act 97 of 1998 encourages partnerships between government, employers, workers, educational and training providers and communities (Martins and Van Wyk, 2002). However, lack of awareness among entrepreneurs contributes to minimize the role of these development programmes (Orford, *et al.*, 2004; Orford, 2004).

Based on the study by Martins and van Wyk (2002) one of the key agencies for implementing skills development and identifying priorities for skills development is the Sector Education and Training Authorities (SETAs)<sup>3</sup>. Within the tourism context, a number of examples can be found on how government and private structures have created the space for small enterprise promotion and development. For example organizations such as the South African Tourism Services Association (SATSA), Tourism Enterprise Programme (TEP), Cape Town Routes Unlimited (CTRU), the DEDT and DTI have facilitated the development of entrepreneurs in the Western Cape region (Thomas, 2005).

Initiatives such as the TEP and the Tourism Learnership Project (TLP) focus on training of entrepreneurs within the requirements of the Skills Development Act by encouraging small tourism owners to grow and expand their businesses (*DEAT*, 2003). In the particular case of the TEP, it identifies, facilitates and fosters commercially viable businesses (Parker, 2005).

Other programmes available to the public are the Small and Medium Enterprise Development Programme (SMEDP), Competitiveness Fund, the Black Business Suppliers Development Programmes (BBSDP) and the Integrated Tourism Entrepreneurship Support Programme (ITESP) (*DEDT*, 2005). The ITESP it is one of the recently formulated programmes for SMME development within the tourism industry. An interesting aspect of this programme is that it does not offer any financial assistance, but

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<sup>3</sup> The Minister of Labour established 25 SETAs on 20 March 2000. Each SETA serves a discrete sector of the economy and each has a governing board or council. Government Departments are also represented on SETA Boards. SETAs will also be involved in the implementation of the National Skills Development Strategy. In promoting quality assurance SETAs collaborate with other education and training quality assurers.

rather focuses on an integrated plan that would enable entrepreneurs to get access to capital, to foster skills and access markets (*DEDT, 2005*).

Like Khula Enterprise Finance, the ITESP uses the assistance of agents that serve as intermediaries or mentors. However, there is evidence of the lack of effectiveness of this mentorship programmes due to the quality of the so-called mentors. Orford (2004) argues that there is evidence about the quality, usefulness and accessibility of government services amongst small businesses. In general there is evidence of small businesses that are not aware of most of the government's efforts to support small enterprises (Orford, *et al.*, 2004).

According to Thomas (2005), the existing programmes offered by government and private organizations play an important role in the development of SMMEs, but fail in addressing economic empowerment, which is generally misunderstood. For example, government still relies on external contractors that either do not have the experience required or simply lack commitment (i.e. do not understand the principles of empowerment) to undertake the task (Orford, 2004). On balance, most of the government's initiatives to support SMMEs have not been very successful, while public-private partnership, such as the TEP; have proved very successful in supporting these organizations (Orford, 2004).

Martins and Van Wyk (2004) show that a large number of SMMEs do not see the need for skills development, which might be due to ignorance about benefits of training and misconceptions of their skills levels. Lerner and Haber (2000) suggest that the level of performance of small businesses is attributed primarily to the education, experience, and skills of the entrepreneurs, as well as to their personal entrepreneurial characteristics. Skills development programmes and financial support are considered the two aspects of government support, that influence the most in the development of SMMEs in South Africa (Njobeni, 2004; Wadula, 2004; Rogerson, 1999).

## **2.9 FINANCIAL SUPPORT FOR SMMEs IN SOUTH AFRICAN CONTEXT: A TOURISM PERSPECTIVE.**

In countries such as South Korea, Taiwan and Indonesia, financial assistance is the most critical form for SMMEs, where governments have made an extensive use of parastatal financial institutions (Mkandawire in King and McGrath, 1999). In other countries such as Australia, financial support is provided by government to enhance skills formation by means of industry training support (Martins and Van Wyk, 2004).

Regarding financial support in South Africa, agencies such as Khula and Umsobomvu Youth Fund, have been established in order to promote financial assistance to SMMEs (Njobeni, 2004). In the case of the Umsobomvu Youth Fund, one finds that it emerged as a response to the high youth unemployment in the country (*DEAT*, 2003).

Orford, *et al.*, (2003) find the lack of finance as a problem for a significantly larger proportion of informal entrepreneurs compare to established firms. According to Wadula (2004), informal businesses in South Africa find it more difficult to obtain finance from banks than established businesses, and were more reliant on funding from family and friends. Supporting this view, Orford (2004) argues that start-up entrepreneurs in South Africa tend to rely primarily on their own savings and on loans from relatives (i.e. family, friends) with banks and other financial institutions not playing a significant role. 'Access to finance is typically a major problem for entrepreneurs without a track-record or without any form of guarantee' (Orford, *et al.*, 2004:31).

On the other hand, many entrepreneurs find it very difficult to get access to all the information available on the type of financial products available to SMMEs and how to apply for them (Wadula, 2004). In their analysis, Lerner and Haber (2000) strongly emphasize that the effectiveness of government financial support lies in the amount of business owners that can be reached. In other words, if only a small percentage of entrepreneurs can get access to financial aid, then it can be considered as a failure.

However, not only government should be responsible for financial support. On the other side of the spectrum one finds the private sector and commercial banks. Martins and Van Wyk (2004) suggest that most of the financial support that small businesses receive comes from the banking sector and friends with 43% and 18.2% respectively. According to Wadula (2004), in the case of commercial banks, there has been some criticism for a lack of involvement in SMME funding, especially among black-owned businesses.

Njobeni (2004) says that very often banks reject black entrepreneurs, despite all indications that they can repay the loans.

Kirsten and Rogerson (2002) argue that the ability of the tourism sector to contribute significantly to employment creation and entrepreneurship development is, however, crucially dependent on a number of variables including the nature and location of the tourism project, the size and source of investment, policy intentions and the level of financial support available to entrepreneurs. Birley and Westhead (1992) and Lerner (1989) agree in their arguments that those small tourism business that benefit from financial government aid/support, perform significantly better than those businesses that do not get access to support. Orford (2004) suggests that the key to increasing financial support for black-owned small enterprises lies in supporting improvements in the financial management capacity of these businesses.

As an interesting aspect of financial support one finds that most of the support programmes established within the tourism sector, do not provide financial capital, and limit their help to the developing of business plans or other paperwork that entrepreneurs need for the approval of loans (Parker, 2005). Orford, *et al.*, (2003) suggest that availability and access to finance are problematic for entrepreneurs, but depend on the type of business and the size of the enterprise. One might argue that if financial support remains one of the most important factors for SMME development and success, the current programmes run by the government need to be re-analyzed in order to find an alternative and effective solution.

## **2.10 CONCLUDING REMARKS**

This chapter seeks to review the existing literature on SMME development and tourism, focusing on the role of government support in the development of small tourism businesses. Information from the international and national arenas was considered.

The trend worldwide indicates that SMME development is becoming an increasing contributor to employment creation and a generator of revenue. This phenomenon has played a leading role in many developing countries and has made a significant contribution to the national GDPs. However, there are several factors that challenge the

success and survival of these enterprises (SMMEs). A highly competitive and regulated environment makes it more difficult for SMMEs to achieve success.

In post-apartheid South Africa, entrepreneurial development has created a major opportunity for employment. However, there is still disparity regarding demographic entrepreneurial development. A large proportion of small enterprises in South Africa are still white-owned establishments. In the case of black-owned SMMEs, a high proportion struggle to make it to the mainstream and do not achieve growth nor move up the ladder. Also, Policy regulations also have a major impact on the development of SMMEs.

Tourism has become one of the fastest growing sectors in South Africa. In addition, small tourism businesses have made a significant contribution to grow in this sector. The *White Paper* (1996) identifies tourism as a labour intensive sector that can provide a source for employment and generate substantial profit. The literature identifies government support (skills development programmes and financial support) as one of the key variables that influence SMME development. Black-owned small businesses find very difficult to get access to finances and very often rely on family or friends to start or grow their businesses.

There is a disagreement between the information provided by government documents/archives and the academic and popular reading, regarding the accessibility and success of skills development programmes and financial support. There is apparently a lack of effective coordination between the different stakeholders. There is evidence of a series of skills development programmes offered by the government (national and provincial). The reality is that only small proportions of entrepreneurs are either informed or get access to these programmes. This gap offers the opportunity to evaluate the variable government support within the context selected by the researcher. This research survey gives the opportunity to explore the role of the provincial government in providing the necessary support for the development of black-owned small tourism businesses, by comparing information from both business owners and government officials.

## **CHAPTER 3: RESEARCH METHOD**

### **3.1 INTRODUCTION**

This chapter focuses on the presentation of the research method followed by the researcher. The sections of this chapter discuss the scope of the research, the data analysis and validity of results. A structured questionnaire is used as a source for collecting primary data. In addition, semi-structured interviews were conducted in order to obtain information from government officials and experts in tourism and small enterprise development. The interviews were conducted with members from the provincial government Department of Economic Development and Tourism (DEDT), the Cape Town Routes Unlimited (CTRU), the Cape Craft and Design Institute (CCDI) and the Tourism Enterprise Programme (TEP). Additional interviews were conducted with experts from the University of Cape Town's Centre for Innovation and Entrepreneurship (CIE) and the Cape Peninsula University of Technology (CPUT).



The questionnaire combines open-ended and close-ended questions and constitutes the main source of obtaining primary data in this study. The target population for the questionnaire are black-owned small tourism businesses in the Cape Town area. Other sources of information used were published and unpublished documents, such as the provincial government's official reports regarding small tourism development in the region.

### **3.2 THE DATA COLLECTION**

The research focuses on evaluating the role of provincial government support in the development of black-owned small tourism businesses in Cape Town area. The study required the collection of primary data within the given framework (i.e. Cape Town). The sample was selected from the 2005 WECBOF membership database, which is linked to the CPUT. This database was created as a way to support and protect the interests of black-owned small businesses in the province. An important characteristic of the database

is that all businesses are black-owned, which facilitated the selection of the population for this study.

In addition, questionnaires were distributed by e-mail to the businesses selected for the study. The sample included a wide range of tourism businesses such as tour operators, travel agencies, bed and breakfast establishments as well as catering, transport and cleaning services. The collection of empirical data started on February 2005 and concluded in the last week of April 2005. In addition, provincial government officials were interviewed by means of face-to-face semi-structured interviews.

### 3.3 SCOPE OF THE STUDY

This exploratory study comprises a survey method by means of questionnaires as the primary source for information and data gathering. Originally, the study was intended to cover the Western Cape Province, but due to time constraints and lack of financial resources, it was decided to analyse the role of the provincial government support from the perspective of black-owned tourism businesses based in Cape Town.

The WECBOF membership database was used to select the target population for the study. Other black-owned businesses that are not members of the database mentioned above were, therefore excluded from the survey.

### 3.4 SAMPLE SIZE

For the purpose of the research, black-owned tourism businesses were targeted. The sample was therefore selected from a wide range of SMMEs that included from tour operators to cleaning services businesses. The target population comprised a total of 63 small businesses currently registered. Taking into account budget and time constraints, 46 businesses were selected. Only 39 usable questionnaires were successfully returned to the researcher representing a 62% of the target population and 85% of the sample chosen (see Table 3.1).

	Description	Percentage (%)
Population	63 small tourism businesses (WECBOF membership database)	100

Sample	46 small tourism businesses (selected from the population given)	73% of 63
Valid sample	39 small tourism businesses (represent the amount of usable questionnaires returned for analysis)	62% of 63

### 3.4.1 Sampling method

Cooper and Schindler (1998) state that in order to secure a sample, it is important to take into account elements such as relevant population, sampling frame, type of sample, size needed and the costs involved. Originally, the DEDT was approached in order to obtain access to contact details of black-owned small tourism businesses currently operating in Cape Town. However, despite being helpful regarding information such as support and funding programmes and due to ethical issues, the information was not provided.

The WECBOF membership database complied with the selection criteria which included aspects such as size of business, time of operations (age of business at least 1 year of operation) and the race composition (i.e. African, Coloured and Indian).

The sampling method used was judgment sampling, which is a type of purposive sampling. Judgment sampling is regarded as non-probability sampling and occurs when a researcher selects a sample to conform to some criterion previously defined by him/her (Cooper and Schindler, 1998). In this regard, all businesses selected for the study conformed to the criterion chosen for the selection (i.e. size of business, black-ownership, not part of a corporate group, time of operations, location). The use of judgment sampling however does not imply that the sample will not comply with the reliability and validity requirements. This approach is considered to be appropriate for exploratory studies and theory development, where the aim of the research is to generate theory and a wider understanding of social processes or social actions (Morrison and Teixeira, 2004). In addition, Cooper and Schindler (1998) state that purposive sample is often used to improve representativeness. In view of the above discussion on sample size, the number of cases constituting this sample is regarded as acceptable.

#### 3.4.1.1 Sampling errors

Any research is excepted from committing sampling errors and in a survey, sample errors arise, because only a fraction of a population is analyzed (Martins and Van Wyk, 2004). Samples may differ from the population, simply because they do not include every individual (Yu, 2004).

### **3.5 QUESTIONNAIRE DEVELOPMENT**

The questionnaire development process is one of the most important stages of the study. Initially, the researcher intended to take an existing questionnaire by Lerner and Haber (2000), which was used in a survey study of small tourism ventures within the Israeli context. However, the questionnaire was difficult to adapt and the length was known to be a constraint in terms of time availability. A new questionnaire was developed in order to reduce bias.

Before developing the questionnaire, eight interviews with provincial government officials from different departments were conducted, namely the DEDT and CTRU office. In addition, a researcher from the Graduate School of Business, University of Cape Town, a professor from the Cape Peninsula University of Technology and the director of African Equations (i.e. a private support organization in partnership with the provincial government) were interviewed in order to obtain information regarding SMME development and tourism development in Cape Town post 1994. A copy of the semi-structured set of questions can be found in Appendix 2.

For the purposes of the study, a semi-structured set of questions was developed. The questions involved several issues surrounding the role of government support, such as advisory support, financial support, skills development programmes, private-public sector partnership, networking and Black Economic Empowerment (BEE) issues. The interviews were conducted by prior arrangement. Telephone calls were made and e-mails were used in order to contact the different government officials targeted for the interviews. Although there were difficulties to contact several potential interviewees due

to their hectic agenda, it was satisfactory to complete the eight interviews planned. The interviews were conducted face-to-face and with time limit from 30 to 60 minutes to obtain relevant information. Interviews were tape-recorded. Also, written notes were taken in order to improve the reliability to the data acquired.

In addition, archived documents and other published and unpublished documents were provided by some of the interviewees, which added more information to the collected data. Most of the documents described the existing support programmes offered by the government and others that have been offered by private sector in partnership with the provincial government. Both sources of information were used to develop the questionnaire. Despite the time spent in collecting the information, the research was not delayed. The next step involved the elaboration of the questionnaire and the pilot test.

### **3.5.1 Content of questionnaire**

According to Baker (2003), structured questionnaires are the principle means used for collecting data by means of a survey designated population or sample. This study uses a structured questionnaire as the main source of data collection. The questionnaire is seven pages long and combines open-ended, close-ended, multiple choice and 5 point Likert-scale questions. A copy of the questionnaire developed for the current study can be found in Appendix 3.

The questionnaire contains 38 questions. The first section of the questionnaire extracts socio-demographic and general information about the business. On the other hand, section two elicits information on awareness regarding government support programmes and sources of financing the business. The third section of the questionnaire extracts perceptual information about support programmes (skills development and financial support) and factors affecting small business development.

In general, while designing the questionnaire the researcher took into account aspects such as complexity, length, layout and wording. Baker (2003) suggests that effective communication depends on the design and phrasing of the questions. After designing the

questionnaire a pilot test was needed in order to find whether the questionnaire was ready for distribution and application or not.

### **3.5.2 Pilot test**

The questionnaire was given to different parties for approval before the pilot test took place. These different parties included the supervisor, co-supervisor, a member of a research committee and a business owner. Each party gave written feedback and the required corrections were made, more specifically regarding the logical order of some of the questions. According to Baker (2003), the purpose of pilot-testing lies in checking factors, such as variation, meaning, task difficulty, respondent attention, flow, order of questions and timing. The recommendations have been incorporated in order to comply with Baker's statements.

Subsequently, the questionnaire was e-mailed to 10 business owners of the sample (i.e. 46 businesses) for pilot testing. The response rate was satisfactory. Within a week, these 10 questionnaires were received back for analysis. Useful suggestions were made regarding the length of the questionnaire. However, respondents found it understandable and easy to complete. Few changes were made and despite complaints regarding the length, no information was deleted. As a significant aspect, these respondents showed interest in the questionnaire and the research in general.

### **3.5.3 Questionnaire distribution**

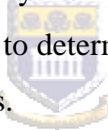
After the pilot-testing process, questionnaires were distributed to the rest of the sample. Due to problems with transportation, the researcher chose to distribute the questionnaires via e-mail and fax. Before undertaking this task, each business was contacted by telephone. Following the request of the business owners, e-mails were used in most of the cases. Only eight questionnaires were sent via fax.

### **3.6 DATA CAPTURING AND ANALYSIS**

The data collected by means of the questionnaire were captured and analyzed using the SPSS 13.0 for Windows (i.e. Statistical Package for Social Science). Each question from the questionnaire was coded in order to process the data and continue with the analysis. The data were captured and descriptive statistics, frequencies and correlations are applied.

#### **3.6.1 Validity of results**

Baker (2003) considers a survey as a systematic gathering of information from respondents for the purposes of understanding, or predicting, aspects of the behaviour of a chosen population. Generally, survey researches yield useful estimates, but not exact values, due to errors that might arise from sampling (Martins and Van Wyk, 2004). For this study, the researcher analysed validity from the perspective of standard deviation of the sample and used the *Chi-square test* to determine significant differences between sets of frequencies and non-response analysis.



### **3.7 CONCLUDING REMARKS**

This chapter focused on the description of the research method used by the researcher to undertake the study. The research method chosen is that of a survey method by means of a questionnaire. However, a questionnaire does not represent the only source of primary data collection. Semi-structured interviews were also used in order to gather information needed for the elaboration of the questionnaire. Secondary sources of information, such as published and unpublished documents were also used to develop the questionnaire.

The questionnaire combined different types of questions such as open-ended, closed-ended and 5 point Likert-scale questions. The questionnaire was pilot-tested and the problems that were highlighted were amended. However, the respondents found the questionnaire lengthy and time consuming, which may constitute a limitation to the

study. Questionnaires were e-mailed and faxed as requested by the respondents. The response rate was high, although only 39 out of 45 questionnaires were considered utilizable for analysis.

The programme SPSS version 13.0 for Windows is used in order to process the data. The data analysis comprises use of descriptive statistics, frequencies, correlations and *Chi-square test*.



## **CHAPTER 4: RESEARCH RESULTS AND DISCUSSION**

### **4.1 INTRODUCTION**

The previous chapter discussed the research methodology used to undertake the study, which is a survey by means of a questionnaire. Semi-structured interviews as well as published and unpublished documents were also used to gather information.

This chapter focuses on presenting and discussing the main research findings. The first part of the chapter discusses the views from government officials and other interviewees as part of the qualitative analysis. The second part of the chapter presents and analyses quantitative data. The analysis comprises an overview of respondents by means of descriptive statistics, correlation analysis and *Chi-square test*. In addition, tables and graphs are used to present the results.

### **4.2 QUALITATIVE DATA ANALYSIS**



#### **4.2.1 Introduction**

As explained in the previous chapter, semi-structured interviews were also used as a source of collecting primary information. The interviews were conducted during January/February 2005. The interviewees were from the provincial Department of Economic Development and Tourism (DEDT), Cape Town Routes Unlimited (CTRU), the Cape Craft and Design Institute (CCDI), Tourism Enterprise Programme (TEP), the Cape Peninsula University of Technology (CPUT) and the University of Cape Town's Centre for Innovation and Entrepreneurship (CIE). Table 4.1 shows the people interviewed from each organization.

Table 4.1: List of interviewees (includes government officials, experts, and researchers)	
Details of interviewee (s)	Organization
Prof. Wolfgang Thomas	Cape Peninsula University of Technology (CPUT)
Shareen Parker	Tourism Enterprise Programme (TEP)
Yumnaa Firfirey /Madeleine G.	Department Economic Development Tourism (DEDT)
Sphetho Siyengo	Integrated Tourism Entrepreneurship Support Programme (ITESP)
Linda Mase	Cape Town Routes Unlimited (CTRU)
Anne Weyer	Cape Craft and Design Institute (CCDI)
John Orford	UCT Centre for Innovation and Entrepreneurship

## 4.2.2 Discussion on the role of provincial government support

This section discusses the data collected by means of semi-structured interviews. The information obtained from the interviews is used to undertake a qualitative analysis in order to develop an understanding of current trends and challenges facing SMMEs and the role that government support plays in the development of these businesses in a Cape Town area. The semi-structured set of questions can be found in Appendix 2.

### 4.2.2.1 Challenges facing small businesses within the tourism industry

Overall, the interviewees suggested that small businesses, and specifically black-owned businesses, within the tourism industry face strong competition from large and well-established enterprises. The literature review identified that a highly competitive environment represents one of the main challenges when it comes to SMME development (Foxcroft, *et al.*, 2002; Kirsten and Rogerson, 2002). However, according to Mase (2005), black-owned small tourism businesses are increasing their market share and participation within the industry which is an indication that, while the industry grows, there are more opportunities for entrepreneurs from previously disadvantaged communities to start their ventures. This view does not reflect the fact that many start-ups

firms do not make it to the next level (i.e. new firm<sup>4</sup>), failing to achieve or retain their market share.

According to Orford (2005) and Parker (2005) the existence of a highly regulated environment, in general represents another significant challenge that small businesses face in South Africa. This view confirms what the consecutive *GEM Reports* state in regard with the excess of regulations that contribute to undermine the competitiveness of SMMEs in South Africa. This argument also applies to small tourism businesses. On the other hand, provincial government departments such as the DEDT, identify the promotion and support of SMMEs within the tourism industry as an important focus area of their strategy. The *White Paper* (2001) emphasizes the importance of encouraging and facilitating black-owned SMMEs to participate in the tourism industry by reducing unnecessary regulations.

Weyer (2005) and Parker (2005) state that entrepreneurs find it very difficult to access the support programmes provided by the provincial government. They also state that the lack access to finance from the government constitutes a critical issue for the development of small businesses. On the other hand, government officials interviewed, emphasized that the provincial government alongside the private sector, work together in order to create more opportunities for small business owners to access support programmes. According to Mase (2005) many entrepreneurs do not attend the skills development programmes advertised by the government and other organizations, which might be due to lack of awareness or lack of confidence in what government offers. Regarding the former, the literature identified lack of awareness as one of the main challenges for SMMEs to access government support programmes (Orford, *et al.*, 2004; Orford, 2004).

Overall, the main challenges identified by the interviewees are not far from the challenges identified in the literature review (Chapter 2). However, aspects such as black

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<sup>4</sup> Foxcroft, *et al.*, (2002) distinguish between two stages of entrepreneurial activity: start-ups and new firms. The level of new firm activity is measured by the proportion of adults who currently own, or part-own, a firm which has paid salaries and wages for between three and forty two months

empowerment and access to markets were not identified as main challenges by the majority of interviewees, contrary to the emphasis that the existing literature makes in that respect. The next section discusses aspects related with support programmes.

#### **4.2.2.2 Provincial government support**

According to Yumnaa Firfirey (2005) and Sphetho Siyengo (2005), both from the DEDT, the provincial government alongside other organizations such as the CTRU and SATSA (South African Tourism Services Association), focus on the development of small businesses within the tourism sector and specifically involving previously disadvantaged communities. The organizations mentioned above, acknowledge the importance of the tourism industry in employment creation and poverty alleviation. However, despite the efforts made by these organizations, black entrepreneurs face higher probabilities of failure than their white counterparts. In addition, different programmes have been put in place in order to support black-owned tourism businesses (Firfirey, 2005). These programmes varied from basic information, training, incentives, marketing platforms, mentorship support and finance. The literature review identified the DEDT, CTRU and SATSA as key players in promoting SMME development among previously disadvantaged communities in the region (Western Cape).

The DEDT, as the government department in charge of tourism development in a provincial context, created a Tourism Business Support System that focuses on guiding small tourism businesses owners throughout the process of starting and developing a venture. According to Firfirey (2005), the system mentioned above allows the potential business owner to take training regarding entrepreneurial development, as well as to get access to the Integrated Tourism Entrepreneurship Support Programmes (ITESP) and DTI initiatives. The former represents one of the most important programmes undertaken by the DEDT in the past two years. The ITESP provides integrated support to small tourism businesses, which can be translated into support ranging from access to capital, skills and access to markets or government procurement (Siyengo, 2005).

However, many entrepreneurs who approach programmes, such as the ITESP, do not understand the meaning of ‘integrated support programme’, which is generally seen as financial support (financial start-up capital). The department (i.e. DEDT) focuses on helping entrepreneurs by providing them with the opportunity of accessing training programmes that lead to the elaboration of a business plan (Firfirey, 2005; Siyengo, 2005; Mase, 2005). Regarding the latter, the ITESP makes use of agents, or mentors, who are in charge of assisting entrepreneurs/business owners, in order to ensure that they improve their businesses via the integrated support programme.

The existence of the mentorship programmes is criticized within the literature. Researchers like Orford (2004) are opposed to the use of mentors. He bases his argument on the fact that generally, these so-called mentors lack the capacity to understand basic accounting concepts and, therefore, are not capable to undertake the advisory role successfully.

Another example can be found within  Khula Enterprise Programme Finance, which over the past years has been providing funding to small enterprises. According to Siyengo (2005), Khula’s mentorship programme facilitates the process of accessing funding. However, in interviews with Thomas (2005) and Orford (2005), the main concerns surrounding the fact that most of the programmes that focus on skills development and other advisory support are failing to identify the real needs of business owners, and more specifically black owners or entrepreneurs. They also state that, as a result, the costs of implanting the mentorship programmes are higher than the value-added. According to Orford (2004), mentorship programmes, such as the one implemented by Khula, fail in addressing the problems faced by entrepreneurs. This could be linked to the lack of experience and commitment of these mentors (contractors). In addition, Orford (2005) suggests that the key to these mentors adding value to their clients lies in recruiting suitably experienced mentors.

On the other hand, despite the existence of the programmes mentioned above, many business owners are not aware that they can access these programmes. According to

Mase (2005), not all black entrepreneurs, or business owners, use the services offered by government departments and other organizations. This can be contrasted with the view from Orford (2004) and Orford, *et al.*, (2003; 2004) who all identified that there is a lack of awareness among black entrepreneurs; and generally, this is reflected in the number of business-owners and entrepreneurs who attend skills development programmes, or approach the provincial government for any kind of support.

According to Mase (2005), the CTRU promotes black-owned businesses, in order to address empowerment and speed up transformation within the sector. On the other hand, there is the perception among black business owners that government procurement it is not satisfactory (Parker, 2005). Within the literature it was found that procurement constitutes an important dimension of the transformation process within the tourism industry (Gedye, 2004). However, according to Parker (2005) well-established enterprises (generally white-owned) have higher probabilities of getting government contracts than black-owned businesses.



Weyer (2005) postulates that the support given by the provincial government to black-owned tourism businesses is not enough, with financial support regarded as the most critical aspect. Access to finance, along with skills development, constitutes one of the most critical issues for SMME performance and, therefore, development (Orford, *et al.*, 2004; Njobeni, 2004; Wadula, 2004). Support programmes, such as the TEP, contribute to create opportunities for accessing start-up capital. The elaboration of a credible business plan increases the chances for entrepreneurs of getting approval from the bank, or other financial organizations (Parker, 2005). The literature identified these programmes as a positive example with remarkable results of an initiative for SMME support (Orford, 2004).

Overall, the government officials interviewed consider that, although there is a lack of awareness among black entrepreneurs, the provincial government has marketed the existing skills development and funding programmes in different media spaces, such as newspapers and forums (e.g. Western Cape Tourism Business Forum). Also, the officials

consider the elaboration of a business plan as the key element that marks the success of the small business. Contrary to these views, experts point out the need for more government involvement in promoting and ensuring SMME development within the tourism industry.

The next section discusses relevant results and findings based on the quantitative data obtained by means of questionnaires.

### **4.3 QUANTITATIVE DATA ANALYSIS**

#### **4.3.1 Introduction**

Questionnaires were distributed to black-owned businesses selected from the WECBOF membership database. As was explained in the previous chapter, the study follows a quantitative approach based on a survey strategy. The questionnaire was distributed by e-mail and fax, and telephone calls were made to follow up with the respondents. The data were gathered during March/April 2005. The following sections present a quantitative analysis that includes an overview of respondents by means of descriptive statistics, correlation analysis and *Chi-square test*.

#### **4.3.2 Overview of respondents**

The sample includes a variety of tourism businesses ranging from B & B, catering, travel agencies, tour operators and cleaning services. Thirty-nine questionnaires out of forty-six (i.e. sample) were successfully collected. Descriptive statistics are used to analyze demographic data and provide an overview of respondents. Table 4.2 and Table 4.3 show socio-economic statistics of the respondents.

From Table 4.2 (below) it can be observed that most of the respondents (25.6%) were tour operators, while 23.1% were transport businesses. In addition, 18% of the respondents owned travel agencies, 15% owned a catering business, while 12% were involved in other types of tourism businesses. Regarding the latter, respondents identified

other business practices, such as cleaning services and manufacturing. Bed and breakfasts represented 5% of the respondents and craft businesses did not generate any response.

Question(s)	Description	Frequency	Percentages %
Q1. Type of business	Tour operator	10	25.6
	Travel agency	7	17.9
	Bed & breakfast	2	5.1
	Catering	6	15.4
	Transport	9	23.1
	Other	5	12.8
	Q2. Ownership	Yes	36
No		3	7.7
Q3. Partners	Yes	20	51.3
	No	14	35.9
	No response	5	12.8

From Table 4.2, it can be observed that most of the respondents (25.6%) were tour operators while 23.1% were transport businesses. In addition, 18% of the respondents owned travel agencies, 15% owned a catering business while 12% were involved in other type of tourism businesses. Regarding the latter, respondents identified other business practices such as cleaning services and manufacturing. Bed and breakfasts represented 5% of the respondents and craft businesses did not generate any response.

Furthermore, Table 4.2 also shows that most of the respondents (92.3%) owned their businesses, while half of these (51%) had partners. The partners were identified as relatives, friends and spouses. This pattern could be linked to the fact that most of small-

tourism businesses are micro, or very small, and generally are family-owned businesses (Morrison and Teixeira, 2004).

Question(s)	Description	Frequency	Percentages %
Q4. Business established	1993	2	5.1
	1994	2	5.1
	1995	2	5.1
	1997	3	7.7
	1998	1	2.6
	1999	1	2.6
	2000	3	7.7
	2001	7	17.9
	2002	7	17.9
	2003	10	25.6
Q5. Previous experience	Yes	13	33.3
	No	26	66.7
Q6. Type of experience	Large tourism Co.	11	28.3
	Large transport Co.	2	5.2
	No response	26	66.7

The average age of the businesses was 4.8 years (Sd=3.21), ranging from 1 to 12 years. There was thus a rather large variation in the time of existence of the business in this sample. In addition, from Table 4.3, it can be observed that 15% of the businesses have been operating in the market for 10 or more than 10 years (i.e.1993 to 2004) and 13% of

the respondents have 6 to 8 years of operations (i.e.1997 to 2004). Most of black-owned small tourism businesses in South Africa have not been operating in the market for a long period of time, with an average of 4 to 5 years (Parker, 2005). It is important to notice that with the end of apartheid and after the democratic elections of 1994, non-white (i.e. Indians, Coloureds and Africans) South Africans had the opportunity to be part of the mainstream of the economy and compete for a market share. However, this does not mean that the conditions that the external environment imposes are ideal for the survival of black-owned businesses and other newcomers.

Table 4.3 also shows that only a third (33.3%) had previous experience in the tourism industry, while 67.7% had not worked before in tourism-related economic activities. The literature states that in South Africa, there are over 45% necessity-driven entrepreneurs. Although the figure is high, most of the entrepreneurial activity is still opportunity driven (Orford, *et al.*, 2004). In this regard, it might be possible that those respondents without previous experience in tourism were able to identify gaps and, therefore, opportunities for starting tourism ventures within a growing industry. In the case of those respondents that had previous experience in the tourism industry, it was found that 28.3% had been involved with large tourism enterprises while only 5.2% have been involved with large transport enterprises before they started their own ventures.

In terms of the demographics of the respondents, five questions collected the information on their age, gender, prospects for business, and the existence of a written business plan and their level of education. The results are presented in Table 4.4.

From the Table 4.4, it can be observed that 72 % of the respondents were male, while 28% were female. Table 4.4 also shows that 53.8% of the respondents were in the age group 30 to 39 years old, while 35.9% were in the age group 40 to 55 years old. Only 10% of the respondents were younger than 29 years (i.e. 18 to 29) while none of the respondents were over 55 years old.

Table 4.4: Demographic characteristics of respondents (N=39)			
Question(s)	Description	Frequency	Percentages %
Q7. Age group	18-29	4	10.3
	30-39	21	53.8
	40-55	14	35.9
Q7. Gender	Male	28	72
	Female	11	28
Q8. Business prospects	Yes	39	100
Q10. Written business plan	Yes	10	25.6
	No	29	74.4
Q11. Educational level	High school	7	17.9
	Technikon/college	16	41.0
	University	11	28.2
	Post-graduate	5	12.8

Overall, the respondents considered their businesses to have economic prospects within the industry (see Q8 in Table 4.4). Most of the respondents (61%) stated that tourism is a growing industry, while 20% stated that the industry is profitable, which can be reflected in the turnovers. These responses are not surprising, based on the fact that tourism is a growing industry and (as the literature identifies) that South Africa has become one of the fastest growing destinations among developing countries (Lubbe, 2003; Mahony and Van Zyl, 2002; *White Paper*, 2001). In addition, government officials interviewed, considered

tourism sector as the sector with higher prospects in South Africa in terms of employment opportunities by means of SMME development.

On the other hand, only 25.6% of the respondents had a written plan when they started their businesses, while a remarkable 74.4% had no business plan. This finding can be compared with the feedback from the DEDT officials interviewed, where they stated that a critical problem facing entrepreneurs was the absence of business plans. In addition, the literature reviewed emphasized the need for entrepreneurs to have a written plan before starting their ventures, in order to get access to financial aid and to measure performance (DEDT, 2005).

Table 4.4 also shows that more than 80% of respondents had post high-school qualification such as technikon or college (41%), university (28.2%) and post-graduate diploma (12.8%). This finding can be compared with the fact that previously disadvantaged communities in South Africa had limited access to education before democracy. However, it is important to notice that the sample for this research was taken from the WECBOF membership database which is linked to Cape Peninsula University of Technology. Therefore, entrepreneurs or businesses registered with this membership are more likely to access skills development and training programmes provided by the institution (i.e. CPUT).

From the results described in this section, it can be observed that the majority of the respondents own their businesses, but not all have business partners. On the other hand, most of respondents did not have previous experience within the tourism industry. This is not surprising, based on the fact that many entrepreneurs in South Africa are opportunity-driven (Foxcroft, *et al.*, 2002). In this regard, it can be argued that, while tourism becomes a fast-growing industry, entrepreneurs might find opportunities for starting a tourism venture, despite not having previous experience.

In addition, it is found that most of the respondents are in the second age group identified in the questionnaire (30 to 39 years). This is not surprising if one looks at the entrepreneurial activity rates in South Africa in the last four years where the higher levels can be found amongst 25 to 44 years old (Orford, *et al.*, 2004). On the other hand, the

highest educational level among the respondents is at the level of post-graduate diploma, while the lowest is high-school. This finding seems to be linked to the fact that respondents are enlisted in the WECBOF membership. All respondents indicated that their businesses have economic prospects, which can be related to the fact that the tourism industry is perceived as profitable and capable of creating employment (at least) on a short-term basis.

### 4.3.3 Training and skills development programmes

In the qualitative analysis (see Section 4.2.2.2) it was discussed how government promotes SMME development by means of skills development programmes. This section presents and discusses aspects such as training received concerning entrepreneurship, awareness and participation in skills development programmes from the respondents' points of view. A correlation analysis is added to the discussion. Table 4.5 presents the frequency counts and percentages of entrepreneurial training and skills development.

Question(s)	Description	Frequency	Percentages %
Q12. Prior entrepreneurial training	Yes	10	25.6
	No	29	74.4
Q14. Awareness skills development programmes	Yes	29	74.4
	No	10	25.6
Q16. Attended skills development programmes	Yes	11	28.2
	No	28	71.8

From Table 4.5 it can be observed, that only 10 (25.6%) of the respondents received entrepreneurial training, while a remarkable 74.4% received no training in entrepreneurship. The type of training received is basic management skills for services business in general. On the other hand, a remarkable 74.4% of respondents indicated that they were aware of skills development programmes, while 25.6% were not. These results

can be contrasted with the view from Orford (2004:24) regarding the lack of awareness of entrepreneurs due to poor marketing strategy from government departments (provincial and national level).

When asked if they have attended any skills development programme, over 71% of respondents answered in the negative (see Table 4.5). The rest (28.2%) attended skills development programmes, such as, the TLP, the TEP and other programmes run by government SETAs<sup>5</sup>. Contrasting this result with the previous one, it is found that even when most of the respondents were aware of skills development programmes, they do not participate or attend them. Those business owners with a high level of education might not consider the need for attending training and skills development programmes compared to those entrepreneurs that have a lower level of education. However, the poor attendance of skills development programmes might be linked to ignorance about the benefits of training and misconceptions about their (entrepreneurs) skills levels, as identified in the literature by Martins and Van Wyk (2004).

The findings in this section indicate that a small percentage of respondents have never received training in entrepreneurship. On the other hand, although over 74% of respondents are aware of skills development programmes, attendance is limited to a small percentage (28.2%). The literature states that skills development along training and education are key variables that combined contribute to increase the chances of SMME success (Lerner and Haber, 2000).

Also, the literature suggests that awareness increases the chances of entrepreneurs' access to skills development programmes (Orford, 2004; Orford, *et al.*, 2004). The former suggest a correlation between awareness and access to support programmes. In this regard, the next section presents a correlation analysis in order to find whether prior entrepreneurial training, awareness skills development programmes and attended skills development programmes are significantly correlated or not.

#### **4.3.3.1 Correlation analysis**

Pearson's correlation coefficients were used in order to determine the level of correlation between questions Q12 (Prior entrepreneurial training), Q14 (Awareness skills

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<sup>5</sup> Refer to footnote 3 in Chapter 2.

development programmes) and Q16 (Attended skills development programmes). Table 4.6 presents the values obtained for these questions.

Table 4.6: Pearson correlation values for “Prior entrepreneurial training”, “Awareness skills development programmes” and “Attended skills development programmes” (N=39)

Description		Prior entrep. training	Awareness skills dev. programmes	Attended skills dev. programmes
Q12. Prior entrepreneurial training	Pearson Correlation Sig. (2-tailed)	1	.076 .646	.415** .009
Q14. Awareness skills dev. programmes	Pearson Correlation Sig. (2-tailed)	.076 .646	1	.368* .021
Q16. Attended skills dev.	Pearson Correlation	.415**	.368*	1
**. Correlation is significant at the 0.01 level (2-tailed) *. Correlation is significant at the 0.05 level (2-tailed)				

Based on the results after calculating the Pearson’s coefficient, it was found that there is no correlation between “Prior entrepreneurial training” and “Awareness of skills development programmes”. This finding indicates that it might be possible that business owners do not regard training on entrepreneurship as an important aspect of the skills development process.

However, “Prior entrepreneurial training” is significantly correlated to “Attended skills development programmes” ( $r = 0.415$ ). Additionally, it was found that “Awareness of skills development programmes” and “Attended skills development programmes” are significantly correlated ( $r = 0.368$ ). The former suggests, that entrepreneurs with previous entrepreneurial training might be more inclined to attend skills development programmes than those without previous training. In addition, being aware of skills development programmes and other support programmes might influence the attendance to the programmes. However, as was discussed in section 4.3.3, although the majority of the

respondents are aware of skills development programmes, not all of them attend these programmes.

The results presented above indicated that the questions “Prior entrepreneurial training” (Q12) and “Awareness of skills development programmes” (Q14) are not correlated. On the other hand, questions Q14 and Q16 are significantly correlated ( $r = 0.368$ ). However, it is important to notice that the data analyzed are based on 39 valid cases. This means that a bigger sample or number of cases might offer a different outcome compare to the current results. This aspect will be revisited and discussed further in Chapter 5.

#### **4.3.4 Access to start-up capital and current sources of finance**

Access to finance constitutes one of the key challenges identified in the literature, as well as in the qualitative analysis, based on information obtained from semi-structured interviews. This section presents and discusses the findings from three questions on aspects such as access to start-up capital prior starting the business and current sources of finance used by respondents. A correlation analysis is added to the discussion. Table 4.7 presents the frequency counts and percentages of access to start-up capital ad current sources of finance.

Table 4.7 shows, that the majority of respondents (64.1%) did not have start-up capital when starting their businesses, while 35.9% of the respondents had access to finance when they started their ventures. This finding reflects the overall situation regarding accessibility to finance for most small businesses throughout the South African economic spectrum. As stated by Rogerson (in King and McGrath, 1999), one of the key needs of the emerging SMME economy in South Africa is related to the improvement of finance and credit supply by the government and financial institutions.

The literature reviewed identified access to finance as one of the most critical issues regarding SMME development within the South African context (Wadula, 2005; Njobeni, 2004; Orford, *et al.*, 2004; Orford, 2004). Also, government officials interviewed

confirmed that entrepreneurs highlight the accessibility to start-up capital as a major inhibitor.

Table 4.7: Access to start-up capital and current sources of finance (N=39)			
Question(s)	Description	Frequency	Percentages %
Q18. Start -up capital	Yes	14	35.9
	No	25	64.1
Q19. Access to start-up capital	Bank	8	20.5
	Government	5	12.8
	Friends	1	2.6
	Family/relatives	4	10.3
	Other sources	7	17.9
Q20. Current sources of finance	Bank	16	41.0
	Government	5	12.8
	Other sources	18	46.2

On the other hand, Table 4.7 also shows the sources used by respondents with no start-up capital prior initiating their ventures. Most respondents (20.5%) accessed capital through the bank, while around 18% used other sources, such as overseas capital and relief funds from non-governmental organizations. Only 12.8% (5 cases) received government financial backing, both at the start-up, and during the steady phase of the business. In addition, over 10% received the capital needed from family, or relatives, while over 2% borrowed capital from friends.

When asked about current sources for financing their businesses, it was found that 41% of businesses received funding from the bank (see Q20 in Table 4.7). Over 42% of the businesses found other sources of finance, such as own capital (i.e. self-sufficient) and funds provided by large enterprises. This finding is supported by the literature. Njobeni (2004) and Wadula (2004) highlight the poor performance of banks and government financial institutions, based on the barriers black entrepreneurs face in order to access loans. However, although Orford (2004) recognizes the need for a more active role from government and banks regarding financial support to SMMEs, he emphasizes the importance of improving the internal financial management of these (SMMEs) businesses.

In general, small tourism businesses are no less different from other small, medium and micro-sized enterprises within other sectors. It is not surprising that few businesses use government financial institutions in order to access start-up capital. Researchers like Orford (2004) state that start-up entrepreneurs in South Africa rely primarily on their own savings and loans from family and friends, because banks and government financial institutions do not play a significant role in providing access to finance. Another aspect is the fact that for small enterprises to get access to capital provided by government financial institutions, it is necessary to comply with the requirements of a written business plan. This suggests that there might be a correlation between having a written plan and access to start-up capital.

The next section presents a correlation analysis in order to find whether questions “Written business plan”, “Start-up capital”, “Access to start-up capital”, and “Current sources of finance” are correlated.

#### **4.3.4.1 Correlation analysis**

Pearson’s correlation coefficients were used in order to determine the level of correlation between questions Q10 (Written business plan), Q18 (Start-up capital), Q19 (Access to

start-up capital) and Q20 (Current sources of finance). The values are presented in Table 4.8.

In a previous section it was found that most of respondents did not have a written plan when starting their businesses. In addition, government officials interviewed for the study emphasized the importance of having a written plan, in order to access capital or funding from banks and other financial institutions.

Table 4.8: Pearson correlation values for “Written business plan”, “Start-up capital”, “Access to finance” and “Current sources of finance” (N=39)					
Description		Written business plan	Start-up capital	Access to start-up capital	Current sources of finance
Q10. Written business plan	Pearson Correlation Sig. (2-tailed)	1	.050 .761	-.047 .776	.054 .745
Q18. Start-up capital	Pearson Correlation Sig. (2-tailed)	.050 .761	1	.721** .000	.159 .335
Q19. Access to start-up capital	Pearson Correlation Sig. (2-tailed)	-.047 .776	.721** .000	1	.266 .101
Q20. Current sources of finance	Pearson Correlation Sig. (2-tailed)	.054 .745	.159 .335	.266 .101	1
**. Correlation is significant at the 0.01 level (2-tailed)					

Table 4.8 shows that “Written business plan” is not correlated with “Start-up capital”, “Access to start-up capital” and “Current sources of finance”, based on results obtained ( $r = 0.050$ ,  $r = -0.047$  and  $r = 0.054$ , respectively). On the other hand, “Start-up capital” and “Access to start-up capital” are significantly correlated ( $r = 0.721$ ) at the 0.01 level of significance.

In regard with the lack of correlation between “Written business plan” (Q10) and “Start-up capital” (Q18), it can be said that the responses of these two questions are not comparable, because a person without a business plan could have had sufficient Start-up

capital in the first instance. The results presented above, also indicated that having a written business plan does not impact on accessing start-up capital, or current sources of financing the business. Based on the information obtained from government officials, those entrepreneurs with a written business plan had higher opportunities of getting a loan from the bank or a government financial institution. However, the literature highlights the fact that black entrepreneurs struggle to access loans from banks and other financial institutions, which might be attributed to the perception of black-owned business being associated with high risks (Njobeni, 2004; Wadula, 2004).

In addition it was found that “Start-up capital” and “Access to start-up capital” are significantly correlated. However, as was explained before, it is important to notice that the data analyzed are based on 39 valid cases only. This means that a bigger sample, or number of cases, might offer a different outcome compared to the current results. This aspect will be revisited and discussed further in Chapter 5.

#### **4.3.5 Tourism policy awareness and access to provincial Department of Economic Development and Tourism (DEDT)**



Tourism policy awareness is another important aspect linked to small tourism business development. Based on the literature, it is found that policy awareness contribute to increase the opportunity of small tourism businesses of receiving both financial and advisory support from government (*White Paper*, 2001).

This section discusses the results regarding tourism policy awareness among the respondents and the accessibility to the DEDT. Table 4.9 shows the state of awareness by the respondents regarding tourism policy and access to government departments (DEDT), as elicited by means of four questions (Q21-Q24).

From Table 4.9 it can be observed, that the majority of the respondents (64%) indicated that they were aware of the tourism policy regarding SMME development, while 36% did not know about it. However, documents, such as the *White Paper* (2001:17) highlight that many entrepreneurs and small business owners are not aware of the policy regarding

SMME development within the industry, which results in poor knowledge or lack of knowledge regarding the efforts that government (national and provincial levels) has made on promoting an integrated management of tourism, in order to harness its resources for sustainable growth.

Table 4.9: Tourism policy awareness and access to government department (N=39)				
Question (s)	Description	Frequency	Percentages %	
Q21. Tourism policy awareness	Yes	25	64.1	
	No	14	35.9	
Q22. Sources of information	ASATA	1	2.6	
	DEDT	5	12.8	
	INDABA	1	2.6	
	Newspaper(s)	12	30.8	
	Tourism agencies	1	2.6	
	WECBOF	1	2.6	
	White Paper	5	12.8	
	No response	13	33.3	
	Q23. Help from government	Yes	21	53.8
		No	18	46.2
Q24. Struggle to access	Yes	9	23.1	
	No	12	30.8	
	No response	18	46.2	

Table 4.9 also shows the different sources respondents use to find out about the policy regarding small tourism businesses. The sources vary from newspapers to information supplied by the Department of Economic Development and Tourism. Most of the respondents (31%) used newspapers, while 13% gained information through the *White Paper* (2001). An additional 13% of respondents were informed through the DEDT. The rest used other sources such as the tourism INDABA, tourism agencies and WECBOF.

Regarding the latter, it can be noticed that only one respondent accessed information on tourism policy through WECBOF, which it is surprising based on the fact that all respondents are members of this initiative.

On the other hand, as the Table 4.9 shows, out of the 39 respondents, 53.8% approached the provincial DEDT, while 46% have not. Although the majority of respondents approached this government department, it is important to notice that a high percentage have not used that channel to get access to advisory and other support programmes. This finding might be attributed to the lack of awareness among black-business owners, specifically in regard with the advisory support from government departments.

Over 30% of respondents that approached the DEDT for help did not struggle to get access, while 23.1% claimed to have struggled to access the facilities. This finding can be contrasted with the perceptions from government officials who indicated that the department opens its doors to all business owners and specifically to those that were previously disadvantaged or discriminated against in the past.

Overall, from the findings presented in this section, it can be observed that although some entrepreneurs are aware of the tourism policy, a vast majority remains unaware. This suggests a gap in the communication between government and the stakeholders. However, it also suggests that black-entrepreneurs lack confidence on the government's initiatives to support SMMEs.

The next section discusses the evaluation of the service delivery of support organizations by means of a 5 point Likert-scale.

#### **4.4 EVALUATION OF DELIVERY OF SUPPORT ORGANIZATIONS, SUPPORT PROGRAMMES AND FINANCIAL SUPPORT**

##### **4.4.1 Evaluation of delivery of government and private sector support organizations**

This section discusses the perceptions that respondents have of the quality on the delivery of the support organizations described in the questionnaire (see Appendix 3). In order to determine if respondents accessed any of the support organizations listed in Table 4.10, Yes or No questions were used. In addition, in order to identify the perceptions regarding the delivery of those organizations, the respondents were asked to rate each organization on a 5 point Likert-scale. Table 4.10 presents the results regarding the usage of the support organizations.

Table 4.10: Usage of support organizations (N=39)			
Description	Valid Percentages (%)		Total
	Yes	No	
Department of Economic Development and Tourism (DEDT)	48.7	51.3	100.0
Tourism Enterprise Programme (TEP)	33.3	66.7	100.0
South African Tourism Services Association (SATSA)	5.1	94.9	100.0
Cape Town Routes Unlimited (CTRU)	28.2	71.8	100.0
Cape Craft and Design Institute (CCDI)	0.00	100.0	100.0

Overall, the respondents have not used the support organizations listed in Table 4.10. The Department of Economic Development and Tourism (DEDT) is the one that respondents have used the most (over 48%), followed by Tourism Enterprise Programme (over 33 %). In addition, 28 % of respondents used the Cape Town Routes Unlimited, while none of the respondents ever used the Cape Craft and Design Institute, which might be linked to the fact that none of the respondents owns a craft and design business.

Those respondents who used the organizations mentioned above, indicated their perceptions on the delivery of the organizations, as presented in Table 4.11. The table shows the percentages values of respondents which rates along a scale “very good”, “good”, “neutral” “bad”, and “extremely bad”.

Description	Very Good	Good	Neutral	Bad	Extremely Bad	No response
DEDT	0	23.1	20.5	5.1	0	51.3
TEP	0	20.5	10.3	2.6	0	66.7
SATSA	0	5.1	0	0	0	94.7
CTRU	0	25.6	2.6	0	0	72.5
CCDI	0	0	0	0	0	100

From Table 4.11, it can be observed, that the DEDT is the support organization most often used with 23.1% respondents who perceived its delivery as good, 20.5% respondents as neutral and 5.1% respondents as bad. It is important to note that the purpose of the question (i.e. Q26) is to evaluate the perception of those respondents that accessed any of the support organizations mentioned above. Responses did not indicate ratings of “very good” or “extremely bad”.



Table 4.11 shows that the TEP ranks in the second place regarding the perception of its delivery. Twenty-one percent of the respondents perceived the delivery of the organization as good, 10.3% as neutral and 2.6% as bad. Regarding the CTRU, 25.6% of the respondents perceived its delivery as good, while 2.6% indicated neutral. On the other hand, SATSA’s delivery was perceived as good by 5.1% of the respondents.

Overall, it can be noticed that although some respondents used the support organizations listed in Table 4.10, a significant number of respondents have not accessed any of these organizations. This finding suggests that respondents might be sceptical regarding the role of support organizations in promoting SMME development.

#### **4.4.1.1 Evaluation of delivery of support programmes**

This section discusses the perceptions that respondents have of the quality of the delivery of the support programmes described in the questionnaire. In order to determine if respondents accessed any of the support programmes listed in Q27. These responses are presented in Table 4.12. This is followed by respondents' assessment of the quality of the programmes, which are presented in Table 4.13.

Description	Valid Percentages (%)		Total
	Yes	No	
Umsobomvu Youth Fund (Umsobomvu)	0.00	100.0	100.0
NTSIKA Enterprise Promotion Agency (NTSIKA)	2.6	97.4	100.0
Black Business Supplier Development Programme (BBSDP)	5.1	94.9	100.0
Tourism Enterprise Programme (TEP)	28.2	71.8	100.0
Tourism Learnership Project (TLP)	15.4	84.6	100.0
Integrated Tourism Entrepreneurship (ITE)	7.7	92.3	100.0

From Table 4.12, it can be observed, that the programmes are not widely used, yet the Tourism Enterprise Programme, low as it is (28.2%), represents the most often used. The Tourism Learnership Project represents the second most used support programme (15.4%). In addition, support programmes such as Umsobomvu have not been used at all.

Those respondents, who have used the support programmes listed above, indicated their perceptions on their service delivery. Table 4.13 shows the percentages values of the perception of the delivery of support programmes for SMME development.

Description	Very Good	Good	Neutral	Bad	Extremely Bad	No response
Umsobomvu	0	0	0	0	0	100
NTSIKA	0	2.6	0	0	0	97.5
BBSDP	0	2.6	2.6	0	0	94.7
TEP	0	17.9	7.7	2.6	0	72.6
TLP	0	12.8	2.6	0	0	84.7
ITE	0	5.1	0	0	0	95.2

Table 4.13 shows the rating based on the respondents' perceptions. Although the support programmes listed in Table 4.12 are rarely used, it can be observed that 7 (17.9%) respondents perceived the delivery of the TEP as good. In addition, the TEP was the only programme that was perceived to be bad, as claimed by one respondent. Five cases indicated that the delivery of the TLP is good. On the other hand, respondents did not indicate ratings of "very good" or "extremely bad".

Overall, from the results shown above, it can be observed, that few businesses have used the support programmes listed in Table 4.12.

#### 4.4.1.2 Evaluation of delivery of funding programmes for SMME development

This section deals with two questions assessing the use and the perception that respondents have of the delivery of the funding programmes described in the questionnaire. The results are presented in Table 4.14 and Table 4.15, respectively.

Description	Valid Percentages (%)		Total
	Yes	No	
Department of Trade and Industry(DTI)	12.8	87.2	100.0
Industrial Development Corporation (IDC)	0.00	100.0	100.0
The Development Bank of Southern Africa (DBSA)	2.6	97.4	100.0
Khula Enterprise Finance (Khula)	23.1	76.9	100.0
National Empowerment Fund (NEF)	0.00	100.0	100.0
Business Partners Ltd (BP ltd)	2.6	97.4	100.0

From the Table 4.14, it can be observed, that funding programmes are sparsely used, with Khula Enterprise Finance the most used (23.1%). In this regard, the literature identifies Khula as one of the government support initiatives that has played a significant role in providing funding for SMMEs, although with lack of consistency in its delivery (Martins and Van Wyk, 2004; Orford, 2004). Furthermore, the DTI ranks second in terms of usage, but only accounts for a 12.8% response. On the other hand, the IDC and the NEF have not been used by any of the respondents.

Description	Very Good	Good	Neutral	Bad	Extremely bad	No response
DTI	0	0	10.3	2.6	0	87.5
IDC	0	0	0	0	0	100
DBSA	0	2.6	0	0	0	97.2
Khula	0	15.4	5.1	2.6	0	76.7
NEF	0	0	0	0	0	100
BP ltd	0	0	0	0	2.6	97.2

Table 4.15 shows that Khula was the funding programme with higher response, with 15.4% of the responses, indicating that its delivery has been good. However, as in the two previous sections, the non-response rate presents a critical issue.

In section 4.3.4, it was found that most of respondents (64.1%) did not have Start-up capital prior to initiating their ventures and only 13% of those respondents received funding from government financial institutions. In this regard, the literature shows that despite government's commitment to develop SMME sector, ineffective financial support constitutes one of the greatest obstacles facing entrepreneurs in the South African context (Njobeni, 2004; Orford, *et al.*, 2004).

Overall, the poor usage of the funding programmes listed above, indicates that either entrepreneurs are not aware of their existence, or there are other sources to access start-up capital.



The following section discusses the factors that respondents considered are contributing to the failure of black-owned small tourism businesses.

#### **4.5 FACTORS CONTRIBUTING TO BUSINESS FAILURE**

Respondents were asked to rate 7 factors as extracted from the literature that contribute to the failure of small tourism businesses by using a 5 point Likert-scale. Table 4.16 gives a combined percentage of respondents who agreed and strongly agreed that the relevant factor(s) contributed to business failure. Strongly disagree did not generate any response. Table 4.16 also shows the means and standard deviations values calculated for each factor.

From the table below, it can be observed that lack of awareness is regarded as the most important factor (82.1%) that contributes to small business' failure. Lack of entrepreneurial skills was considered the second most important factor (71.8%), while

lack of access to finance generated 69.2% of the responses and ranked in third place. On the other hand, lack of business network/integration and lack of government support (i.e. support programmes) were also considered important, although not as relevant as the factors mentioned above.

Factors	% agree and strongly agree	Mean	Std. Deviation
Low educational level	43.6	2.85	1.48
Lack of entrepreneurial skills	71.8	3.54	1.29
Lack of access to finance	69.2	3.74	1.23
Lack of government support	51.3	3.31	1.40
Lack of awareness	82.1	3.00	1.17
Low self-esteem	41.0	3.13	1.20
Lack of business network / integration	59.0	3.49	1.35

In addition, low self-esteem and low educational level were not considered important. In this regard, one finds that the literature describes low educational level and education in general as a core factor affecting the development of SMMEs in South Africa and more specific those owned by previously disadvantaged entrepreneurs (Orford, 2004). The consecutive *GEM* (2001-2004) reports suggest that education is crucial for the success of the venture in the transition from start-up to new firm. In the case of the sample selected for this study, it is important to notice that overall, the respondents have attended college or university. The lowest educational level was high school and the highest post-graduate degree. The fact that respondents did not find bw educational level as a critical factor contributing to failure, suggests that they perceive themselves to have enough skills to undertake their ventures.

In previous sections it was found that lack of awareness might be a critical factor regarding entrepreneurial development. Orford (2004) attributes the lack of awareness among entrepreneurs to a poor marketing strategy from the government (national and provincial). However, from a government perspective, there is evidence of the efforts and facilities created to support small businesses (Martins and Van Wyk, 2004; Orford, 2004). An example can be found in the Western Cape Tourism Business Forum, which is the result of a cooperative relationship between the DEDT, SATSA, CTRU and TEP with the purpose of facilitating entrepreneurial development. Other examples are the Cape Tourism Showcase and the Tourism INDABA, just to mention a few. However, it is important to ask whether these initiatives are effectively communicated to the stakeholders and whether entrepreneurs are too sceptical about the capacity of government to deliver reliable support services.

#### 4.5.1 Perception on business success/failure

The above section offered an overview of the factors that respondents considered affect the success of their business ventures. In this section, the discussion focuses on business success. Yes or No questions were used to ask respondents' perceptions about their businesses. A *Chi-square* analysis is included. The results are presented in Table 4.17.

Question(s)	Description	Frequency	Percentages
Q32. Perception business success	Yes	35	89.7
	No	4	10.3
Q33. Briefly explain	Lack support	4	10.3
	No response	35	89.7

From the table above, it can be observed that an overwhelming 89.7% (35 cases out of 39) of respondents considered their businesses successful. This finding suggests that,

despite problems such as lack of access to finance, these entrepreneurs perceive their ventures have succeeded. However, it is difficult to generalize about the finding, mainly because of lack of evidence. From the information obtained one cannot deduce the performance measures that these small firms use in order to measure success or failure. On the other hand, only 4 (10.3%) cases considered their businesses not successful. In this regard, respondents alleged lack of support as the factor affecting their performance. In order to determine the significant differences between the two sets of frequencies (business that considered successful and businesses that do not considered successful) a *Chi-square test* is used. In order to undertake the analysis, 6 interference questions were identified. These questions are Written business plan (Q10), Prior entrepreneurial training (Q12), Aware of skills development programmes (Q14), Attended skills development programmes (Q16), Start-up capital (Q18), and Help from government (Q23). The results are presented in Table 4.18.

Table 4.18: <i>Chi-square test</i> results			
<b>Q10. Written business plan</b>			
	Business Plan		
	Yes	No	
Business success	10	25	35
Not success	0	4	4
$\chi^2 = 1.54, p = 0.21$			
<b>Q12. Prior entrepreneurial training</b>			
	Training		
	Yes	No	
Business success	10	25	35
Not success	0	4	4
$\chi^2 = 1.54, p = 0.21$			
<b>Q14. Awareness of skills development programmes</b>			
	Awareness		
	Yes	No	
Business success	29	6	35
Not success	0	4	4
$\chi^2 = 12.926, p = 0.0005$			
<b>Q16. Attended skills development programmes</b>			
	Skills programmes		
	Yes	No	
Business success	11	24	35
Not success	0	4	4
$\chi^2 = 1.75, p = 0.18$			
<b>Q18. Start-up capital</b>			
	Finance		
	Yes	No	
Business success	14	21	35
Not success	0	4	4
$\chi^2 = 2.49, p = 0.11$			
<b>Q23. Help from government</b>			
	Support		

\* Values significant at the 0.05 (5%) level

the only significant value ( $\chi^2 = 12.926$ ,  $p = 0.005$ ), although it might be spurious (i.e. apparently, but not actually valid). The values of *Chi-square* for each interference (bias of the results) question are too high to be considered significant. These results are not surprising, based on the fact that the sample size might be too small to arrive to actually valid results. In other words, it can be said, that the size of the sample group surveyed, makes very difficult to determine whether or not the differences between the frequencies observed are significant. In order to ensure a valid non-parametric analysis, confounding variables should be taken into consideration.



In the case of a hypotheses testing scenario, then the results shown in Table 4.18 would have been unreliable, based on the fact that only four respondents considered their businesses not successful. In this regard, the analysis would have required a log linear analysis of frequency tables. However, it is important to note that this is an exploratory study, where the discussion would lead to raising hypotheses for future research.

#### **4.6 CURRENT EXTERNAL ENVIRONMENTAL CONDITIONS AND LARGE ENTERPRISE SUPPORT FOR SMME DEVELOPMENT**

This section discusses the outcomes of questions 34 and 36 of the questionnaire in which respondents were asked whether the current external environment offered growth conditions or not, and whether they perceived that large enterprises support small businesses in Cape Town, respectively. Table 4.19 shows the outcomes of these two questions and the reasons for these choices by the respondents.

Table 4.19 shows that a remarkable 82.1% (32 cases) of respondents indicated that they considered the current conditions within the external environment offer growth opportunities. Respondents stated that the increasing demand of tourism services constitutes one of the most important reasons for recognizing growth opportunities. This finding is supported by the literature, which acknowledges the role of the tourism industry in boosting economic development in the South African context (Rogerson, 2002; 2001).

Question(s)	Description	Frequency	Percentages %
Q34. Growth opportunities	Yes	32	82.1
	No	7	17.9
Q35. Briefly explain	High demand	26	66.7
	Fair market share	9	23.1
	No response	4	10.3
Q36. Large enterprises support	Yes	4	10.3
	No	35	89.7
Q37. Briefly explain	Lack commitment	26	66.7
	No interested in BEE support	11	28.3
	No response	2	5.1

From the table above, it can be observed that most of the respondents (89.7%), considered that large enterprises do not support small businesses in the Cape Town area. This finding cannot be limited to Cape Town, but it is a reflection of the national spectrum. The literature indicates that historically, South Africa's economy has been dominated by large enterprises and more specifically, white-owned enterprises (Driver, *et al.*, 2001).

Over 58.9 % of respondents stated that large enterprises lacked of commitment regarding SMME development. For some respondents, the DEDT favours large tourism enterprises by giving them profitable contracts. This suggests that small tourism businesses do not have a fair market share. Contrasting this view, government officials interviewed for this study, indicated that small enterprises constitute the priority of provincial government (Western Cape). However, although BEE constitutes an important aspect of the tourism policy, there is a perception that black-owned small tourism businesses have been neglected by the government (*White Paper*, 2001).

#### **4.6.1 Rating of provincial government support in terms of their contribution to black-owned small tourism business development**

This section focuses on discussing the outcomes of question 38 in which respondents were asked to rate the performance of provincial government with regard to small business development among previously disadvantaged groups, as presented in Table 4.20.



Question (s)	Description	Frequency	Percentages
Q38. Rating provincial government support	Excellent performance	1	2.6
	Good performance/not enough involvement	20	51.3
	Not sure	9	23.1
	Poor performance	7	17.9
	Very poor performance	2	5.1

Table 4.20 reveals that, despite the problems identified in previous sections involving the government's poor delivery, more than 50% (20 cases) of the respondents indicated that the provincial government's performance has been good, although it lacked of enough

involvement. Twenty-three percent of respondents are neutral, or not sure about the performance. Almost 17 % indicated poor performance, while 5.1% opted for very poor performance. Only 1 case (2.6%) showed total satisfaction with the provincial government performance in developing small black businesses. In addition, the mean rating of 2.72 (SD=0.97) for provincial government support is below the mid-value of 3 (significant at  $p=0.03$ ).

Overall, it can be noticed, that while most respondents indicated that they are satisfied with the provincial government's performance, there is a relatively significant level of uncertainty. The results shown in Table 4.20, suggest that respondents value the efforts made by the local government. However, it also suggests that respondents would like to see more involvement from the provincial government, specifically from the DEDT.

It is important to state that these outcomes might be limited by the size of the sample. As was discussed in previous sections, this exploratory study analyses a small representation of the whole spectrum of black-owned small tourism businesses in the Cape Town area.



The final chapter (Chapter 5) focuses on conclusions and recommendations. However, other aspects such as limitations of the study and sampling errors, will be included as part of the conclusions.

#### **4.7 CONCLUDING REMARKS**

This chapter presented and discussed the main findings of the study. The discussion involved qualitative and quantitative methods. Descriptive statistics such as frequency counts and percentage values were used to describe socio-economic and demographic characteristics of the respondents. Mean values and standard deviation values were calculated to support results. Correlation analysis using Pearson correlation coefficient was added to the discussion.

## **CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 INTRODUCTION**

After analyzing the data and discussing the implications of the findings, a summary, conclusions and recommendations are presented. This chapter also includes a discussion on the limitations of the study. General conclusions follow the limitations of the study and recommendations are given in the final section.

### **5.2. SUMMARY**

This research project was intended to explore issues surrounding the role of provincial government support on developing black-owned small tourism enterprises in the City of Cape Town. The following sections present a summary of the outcomes of the study.

#### **5.2.1 Introduction to the study**



This exploratory study was motivated by the lack of academic research focused on the role of government support in the development of black-owned small businesses in the tourism industry. Three research questions were the focus of the research project. These questions asked issues such as current trends, challenges and the role of government support regarding black-owned small tourism businesses in the Cape Town area.

The study is limited to the Cape Town area and included only black-owned small businesses operating within the tourism industry. A definition of terms was presented in order to understand concepts and key words used throughout the study. In addition, the methodology chosen for the study was introduced by giving a detailed explanation about the sampling method and the survey procedure.

### **5.2.2 Literature review**

The second Chapter of the study, focused on surveying the existing literature on tourism and SMME development within South Africa. The Chapter analyzed literature from the international and national frameworks. In general, the literature reviewed indicated that globally, the SMME sector is becoming a major driver for economic growth. However, conditions for SMME development in the South African context might be more challenging than those within other developing countries. In addition, the literature indicated that government support is a key variable in promoting and enhancing SMME development. In this regard, it was found that the South African government (national and provincial level) despite promoting SMME development among previously disadvantaged communities has not been effective enough.

The literature also highlighted that despite offering support programmes (skills development programmes) and financial support to small enterprises, the government has failed to address issues such as lack of awareness and lack of business linkages among black-owned businesses. These issues were also identified within the tourism industry, where financial support and awareness of support programmes among entrepreneurs constitute critical aspects that might inhibit success.

### **5.2.3 Research method**

The research method chosen was a survey method by means of questionnaire as the main source of collecting primary data. In this regard, the data were collected from a sample selected from the WECBOF membership database. The sample included a wide range of tourism businesses such as tour operators, travel agencies, cleaning and catering agencies, just to mention a few. The data was collected between February and April 2005. The sampling method used was judgment sampling. In this regard, the criteria chosen for selecting the sample was based on the size of the business, race composition (i.e. black-ownership), not part of corporate group, time of operations (i.e. age of business at least 1 year of operation), and location (Cape Town).

The questionnaire was developed based on information extracted from an existing questionnaire and the semi-structured interviews conducted with government officials and experts. After a pilot test was conducted, few changes were made. The questionnaire was distributed via e-mail and fax. Telephone calls were made to follow up with the potential respondents. Thirty-nine out of forty-five questionnaires were considered usable for analysis.

#### **5.2.4 Research results and discussion**

This discussion comprised an analysis of qualitative and quantitative data. Findings indicated that the majority of respondents did not have a business plan before starting their ventures. On the other hand, entrepreneurial training did not seem to be a priority for the respondents, with a remarkable 74% that have not received training. Regarding start-up capital, most respondents indicated that they did not have initial capital. Over 20% of those accessed funding through the bank, while only 12.6% used government financial institutions.



Regarding the usage of support organizations, support programmes and financial support, it was observed that the DEDT, the TEP and Khula were the support initiatives most widely used. Another important finding was the identification of lack of awareness as the most critical factor regarding business failure. However, low educational level was not considered as important by the respondents. A *Chi-square test* indicated that “Awareness of skills development” was the only significant value, although subjected to bias due to the size of the sample. On the other hand, although most of respondents (82%) considered the industry offers growth opportunities, also perceived that large tourism enterprises in Cape Town do not give enough support to their smaller counterparts. Surprisingly, it was found that half of the respondents believed that the government has performed well although without sufficient involvement.

## **5.3 LIMITATIONS OF THE STUDY**

The potential limitations of the study are discussed in this section. Sampling errors, non-response analysis and other limitations, are discussed below in order to focus attention when applying the research results.

### **5.3.1 Sample selection**

The size of the sample group surveyed constitutes a potential limitation to the study. It was difficult to obtain a bigger database from the provincial DEDT offices. However, the database used for the study complied with the selection criteria (size, race composition, location, and age of business). In addition, time constraints and lack financial resources represented other limitations in terms of the selection of the sample.



#### **5.3.1.1 Sampling method**

Although the sampling frame for this study was constructed from the WECBOF membership database, a judgmental sampling method was used. As an exploratory study, it is important to state that the representativeness of the sample may be of less importance. However, when one looks at the results of the correlation analysis, it can be observed that few variables indicated significant correlation or were correlated at all. This might be related to the limited number of respondents that were sampled. In this regard, in order to ensure relevant correlation values, a bigger sample or number of cases should be considered.

### **5.3.2 Non-response analysis**

As was explained in Chapter 3, the questionnaire used as the main source of data collection, was sent to the potential respondents (sample) via e-mail and fax. Prior that,

questionnaires were pilot tested. Based on the results of the pilot test, the required changes were made, however, there were no changes regarding the length of the questionnaire. Only 39 out of 45 questionnaires were considered usable. In this regard, it is important to say that if more phone calls were made to follow up with the sample, the response rate would have been higher. Also, it is important to add that the length of the questionnaire could have been an inhibitor for potential respondents due to time constraints. It is advised that in order to ensure a high response rate and therefore the validity of the research results, it is vital to analyze all suggestions from the pilot test.

### **5.3.3 Other limitations**

Although the questionnaire was pilot tested, there were some questions that did not generate a meaningful result. This might be linked to the fact that the questionnaire has not been validated before. Another aspect of the questionnaire is that there were some questions that should have been included in order to find out more information. For example, respondents were asked to indicate whether they considered their business as being successful or not (see Q32: Appendix 2). The majority considered their businesses as successful; however, there was not evidence on which measurements of performance were used by the respondents. That constitutes a limitation of the study in terms of generalizability of the results.

On the other hand, language apparently did not represent an issue, but this might be a limitation if not taken into account. In this regard, it can be said that based on South Africa's multilingual and multicultural society, language cannot be ignored. It is advised that for further research, questionnaires are designed in three of the eleven official languages (e.g. English, Afrikaans and isiXhosa).

## **5.4 Conclusions of the study**

The literature identifies tourism as one of the fastest growing sectors in the developing World. In the South African context, it is found that the tourism industry has become an

important generator of employment by means of SMMEs development. Tourism *per se* comprises a wide range of businesses that contribute directly and indirectly to the industry's turn over. However, it is found that South Africa's tourism industry is still widely dominated by white-owned enterprises (specifically large enterprises). Although black-owned small tourism businesses are increasing their participation within the mainstream of the tourism industry, it can be argued that this process is happening at a very slow pace.

This study found that the average age of the businesses (respondents) was 4.8 years, which is not surprising based on the increasing number of start-ups in the SMME sector over the last years. In South Africa, most entrepreneurs are opportunity driven (over 50 %); however, more than 44% of entrepreneurs are driven by necessity. The latter might be attributed to the high unemployment rate, forcing unemployed masses to find sources of income by means of small enterprises.

In the tourism industry, it can be found that there is a wide range of businesses. The sample surveyed for this study, corroborated the latter. However, 25.6% of respondents were tour operators, while 23.1% were involved in transport businesses. Most black-owned small tourism businesses in Cape Town are tour operators, travel agencies or transport enterprises, which if abused can contribute to the saturation of the market.

On the other hand, financial support is regarded as a crucial aspect on government support for small tourism businesses. However, the findings suggest that most black-owned businesses generally rely on family/relatives and friends to access start-up capital. Few respondents have accessed start-up capital through government financial institutions. This suggests and confirms what was found in the literature, which states that government has failed in identifying an accurate estimate on demand for start-up capital and financial aid in general.

Regarding the use of mentorship programmes by government support programmes such as the ITESP and Khula enterprise, it is important to state that although useful, these

programmes (mentorship) should not be implemented unless government can contract reliable and experienced mentors (consultants). The latter might contribute to cost-saving. It might also ensure that black entrepreneurs that lack skills not only could complete the business plan required to obtain the capital needed, but acquire and master financial management skills.

In addition, it was found that skills development programmes provided by the government (i.e. provincial level) are not widely advertised through channels that are accessible and known to entrepreneurs, and especially to black entrepreneurs. In this regard, it can be suggested that a more effective communication system is needed, in order to improve and increase awareness among black entrepreneurs. Also the DEDT alongside the CTRU, need to create a more flexible system that can contribute to minimize the bureaucratic process that involve support initiatives for SMMEs and therefore make it more accessible to entrepreneurs.

A support programme such as the TEP, showed positive results and a relatively higher usage than the rest of the support initiatives listed in the questionnaire. This finding confirms the literature that identified the TEP as one of the most successful support programmes for small tourism businesses. Based on this finding it can be suggested that the TEP should be taken as an example and either replicate its “formula” or take the best lessons from it and adapt those initiatives that are flexible enough for the changes.

The findings also suggest that black-owned small tourism businesses in Cape Town, considered that they do not receive enough support from the provincial government departments in charge of tourism development. However, when asked to rate the role of government in supporting SMMEs, they (respondents), indicated their satisfaction with government’s performance. In general, it can be said that black entrepreneurs still have confidence and trust in the provincial government, regarding the efforts made to promote and develop SMMEs in Cape Town.

However, this perception might be at risk, based on the lack of government procurement regarding the provision of business opportunities to black-owned small businesses instead of well established businesses and large enterprises. Small businesses are proven to be a source of employment creation and therefore an important link within any socio-economic system. Government departments such as the DEDT should not undermine and neglect small tourism businesses. In addition, it can be said that black-owned businesses within the tourism sector play an important role in terms of transformation and black economic empowerment.

Although the literature review includes an overview of both international and South African literature on the topic of small business development in tourism, it does not include any reference to the Black Economic Empowerment Charter and Scorecard adopted at the 2005 Tourism Indaba held in Durban in April. At this date coincided with the submission of this research project for examination; therefore, the detail of the conference was not discussed in this report.



## **5.5 Recommendations**

The conclusions given above, lead to the elaboration of the following recommendations for further studies:

- Further research must be undertaken on the role of government support in developing black-owned small tourism businesses using a wider sample. The sample could include black-owned tourism businesses from different regions in South Africa. The latter might enable a better representation of the total population of black-owned tourism businesses in South Africa, and therefore, higher reliability and validity of the data can be secured.
- Further research on the topic should analyze black-owned small tourism businesses opposed to white-owned small tourism businesses (control group), in

order to compare and assess perception on government support from a racial composition point of view.

- The results of this exploratory study could be used as a basis for consultation by the provincial government departments implicated (DEDT, DTI) and other support organizations.
- Government departments responsible for the support initiatives mentioned in the study should take into account the criticism on the implementation of mentorship programmes. These programmes should be reviewed in order to identify the sources that inhibit their success.
- The DEDT along with the SETAs involved in the promotion of skills development programmes, should revisit the way the information regarding those programmes has been communicated/marketed to entrepreneurs, in order to increase awareness and participation among black-owned small businesses.
- The CTRU, the DEDT, the DTI, SATSA and the CCDI should strengthen their partnership in order to enhance SMME development within the tourism industry in Cape Town.
- In order to contribute to the empowerment of black-owned businesses in Cape Town, government procurement should be at the core of the provincial government's strategy for SMME development and BEE in the tourism industry.
- Large enterprises should be encouraged to form mutually beneficial partnerships with black businesses in order to promote small enterprise development.
- The research findings of this study could be presented in a seminar or workshop by the researcher, where the information can be discussed among different stakeholders such as small business owners, provincial government officials, academics and other experts.

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## Appendix 1: Cover letter for questionnaire

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17 February 2005

Dear Participant



**PARTICIPATION IN A RESEARCH STUDY: THE ROLE OF PROVINCIAL GOVERNMENT SUPPORT IN THE DEVELOPMENT OF BLACK-OWNED SMALL TOURISM BUSINESSES IN THE CITY OF CAPE TOWN**

The purpose of this letter is to invite you to participate in a research study being conducted through the Department of Management at the University of the Western Cape.

The underlying theme of the research project is to determine the extent to which the provincial government assists enterprises in the tourist industry.

For this study to be undertaken, the researcher is required to interview a number of potential participants from tourism enterprises in Cape Town. This study has a potentially extensive impact of providing improved services and assistance to enterprises in this industry.

It will be a first study of this nature to investigate the role of provincial government in support of black-owned enterprises. Therefore, findings from this study would be most useful for policy makers, academics, educational institutions and the public in general.

It would be appreciated if you could complete the enclosed questionnaire, which should take approximately 30 minutes. The data collected will remain anonymous and confidential.

The researcher is registered for a master's degree in the Department of Management at the University of the Western Cape.

Thank you for your participation.

Yours faithfully

Dr Kobus Visser  
(Study Leader)

Ms Lemay Llorente Quesada  
(Researcher)

*A Place of Quality, A Place to Grow*

## **Appendix 2: Semi-structured interview**

The following questions are intended to disclose information regarding small enterprise development within the tourism industry, as well as the role of government in supporting the development of black-owned small tourism businesses in the City of Cape Town.



Name:

Responsibility:

Day of interview:

1. How long have you been working for the department?
2. What are the current issues regarding SMME development?
3. What are the current issues regarding tourism development and BEE at provincial and national levels?
4. Briefly describe programmes that have been implemented in the last 5 years?
5. How do they impact SMME development?

6. How do they impact black-owned small tourism businesses in Cape Town?
7. Is your department working in isolation?
8. What are the main implications of government procurement?
9. How black-owned small businesses get access to start-up capital and finance in general?
10. Does the government facilitate the process of accessing start-up capital?
11. What is the role of the banks in terms of financing SMMEs?
12. What are the prospects for black owned tourism businesses in Cape Town?
13. Do you consider that the government has done enough for SMME development within the tourism industry in Cape Town?



### Appendix 3: Structured questionnaire



University of the Western Cape  
Economic and Management Sciences Faculty  
Department of Management  
Private Bag X17  
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7535

## Questionnaire

Day of Interview:

Time of Interview:

Organization:

*The following questionnaire will be used as a source of obtaining information regarding the SMME sector in the tourism industry. The information obtained will be used by the researcher for the purposes of the study. The researcher will guarantee ethical and careful use of the information.*

1. What type of tourism business are you in?

Tour operator

Travel agency

Bed & Breakfast

Catering

Craft

Transport

Others .....

2. Are you the owner of the business?

Yes

No

3. If Yes, *do you have any partner (s)*.....

4. When was the business established?

.....

5. Did you have previous experience in the tourism sector?

Yes

No

6. If Yes, *what kind of experience?*

.....

7. In which age group are you? Indicate your gender.

18 – 29

Male

30- 39

Female

40-55

55 +

8. Do you think your business has growth prospects?

Yes

No

9. If Yes, *Why?*

.....

10. When the business was started, did you have a written business plan?

Yes

No

11. What is your highest educational level?

Primary school

Secondary school

High school

Technikon /College

University

Post-graduate diploma/degree

Other .....



12. Have you ever received training concerning entrepreneurship or self-employment?

Yes

No

13. If Yes, *What kind of training?*

.....

14. Are you aware of any skills development programme?

Yes

No

15. If Yes, *Which ones?*

.....  
16. Have you attended a skills development programme?

Yes  No

17. If Yes, *Which ones?*  
.....

18. Did you have start-up capital when you started the business?

Yes  No

19. If No, how *did you get access to finance?*

Bank



Government Financial Institution

Friend

Family/relatives

Other source(s) .....

20. How do you finance your business currently?

Bank

Government Financial Institution

Friend

Family/relatives

Other sources (s).....

21. Are you aware of the government's tourism policy regarding SMME development among previously disadvantaged groups?

Yes  No

22. If Yes, how did you find out?

.....

23. Have you approached the Provincial Government Department of *Economic Development and Tourism* for help?

Yes  No

24. If Yes, did you struggle to get access?

Yes  No

Very Good	Good	Neutral	Bad	Extremely bad
				

Tourism (DEDT) Yes No

25. Have you used any of the organizations listed below?

Department Economic Development

Tourism Enterprise Programme (TEP) Yes  No

South African Tourism Services Association (SATSA) Yes  No

Cape Town Routes Unlimited (CTRU) Yes  No

Cape Craft and Design Institute (CCDI) Yes  No

26. If you have used any of the organizations listed above, what is your perception of their delivery?


DEDT

TEP

SATSA

CTRU

CCDI

27. Have you used any of the support programmes listed below?

Very Good	Good	Neutral	Bad	Extremely bad	
					Umsobomvu Youth Fund (Umsobomvu) Yes No
					NTSIKA Enterprise Promotion Agency (NTSIKA) Yes No
					Black Business Suppliers Development Programmes (BBSDP) Yes No
					Tourism Enterprise Programme (TEP)

Yes

No

Tourism Learnership Project (TLP)  
No



Yes

Integrated Tourism Entrepreneurship (ITE)  
No

Yes

28. If you have used any of the support programmes listed above, what is your perception of their delivery?

Umsobomvu

NTSIKA  
BBSDP  
TEP  
TLP  
ITE

29. Have you used any of the funding programmes for SMME development listed below?

Department of Trade and Industry (DTI)

Yes

No

Industrial Development Corporation (IDC)

Yes

No

The Development Bank of Southern Africa (DBSA)      Yes                       No

Very Good	Good	Neutral	Bad	Extremely bad

Khula Enterprise Finance (Khula)  
Yes No

National Empowerment Fund (NEF)  
Yes No

Business Partners Ltd (BPLtd)  
Yes No



30. If you have used any of the funding programmes listed above, what is your perception of their delivery?

DTI

IDC

DBSA

Khula

NEF

BP Ltd

31. To what extent do you agree or disagree that the following factors contribute to business failure?

Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
a) low educational level					
b) lack of entrepreneurial skills					
c) lack of access to finance					
d) lack of government support programmes					
e) lack of awareness					
f) low self-esteem					
g) lack of business networks/integration					

32. Do you consider your business as being successful?

Yes

No

33. If Not, *Why*?

.....



34. Do you think that current external environment conditions offer growth opportunities?

Yes

No

35. Briefly explain your answer.

.....

36. Do you perceive that large enterprises support SMME development in the Cape Town area?

Yes

No

37. Briefly explain your answer.

.....

38. If you are requested to rate the role of the Provincial Government in terms of SMME development among previously disadvantaged groups, how would you grade it?

- |   |                          |
|---|--------------------------|
| Excellent Performance                       | <input type="checkbox"/> |
| Good Performance but not enough involvement | <input type="checkbox"/> |
| Not sure                                    | <input type="checkbox"/> |
| Poor Performance                            | <input type="checkbox"/> |
| Very Poor Performance                       | <input type="checkbox"/> |

***Thank you for your contribution!***

