BARRIERS CONFRONTING SMALL AND MICRO TOURISM ENTERPRISES OF PREVIOUSLY DSADVANTAGED ENTREPRENEURS IN THE NELSON MANDELA METROPOLE

BY

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Submitted in partial fulfillment of the requirements for the Master’s Degree in Business Administration at the Nelson Mandela Metropolitan University.

PROMOTER: Dr. Sandra Perks

November 2005
“I Mzwake Richard Clay, hereby declare that:

- The work in this paper is my own original work.
- All sources used or referred to have been documented and recognised.
- This paper has not been previously submitted in full or partial fulfillment of the requirements for an equivalent or higher qualification at any other recognised educational institution”.

___________________________   _______________
Grateful thanks are extended to all those individuals and organizations that contributed to the successful completion of this study. In particular, the assistance of the following is acknowledged:

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- The staff at Nelson Mandela Metropolitan University Business School for their help;
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- My family and friends, for their encouragement and assistance during the study.
The research problem in this study was to look at barriers confronting small and micro tourism enterprises of the previously disadvantaged entrepreneurs in the Nelson Mandela Metropole. To achieve this objective, literature on the barriers confronting these enterprises, was reviewed. The empirical results obtained indicate a strong concurrence with the literature study emphasizing the importance of the barriers identified and the possible ways of resolving them.

The main problems identified in the literature review were: lack of institutional support, legislation, lack of access to finance, and lack of entrepreneurial skill (planning and organizing, marketing, training and human resources, time management, conflict resolution and negotiation skill). These barriers identified in the literature study were then used to develop a questionnaire to test the extent to which small and micro tourism enterprises are constrained by barriers when starting up and how these barriers can be resolved. A sample of 18 small and micro tourism businesses was taken, one from Uitenhage and 17 from Port Elizabeth.

The main results were that there are few small and micro tourism businesses of the previously disadvantaged entrepreneurs in the Nelson Mandela Metropole. The main reason for this is that previously disadvantaged entrepreneurs are not given adequate support by government institutions created for that purpose.
Most of these businesses are not getting enough financial support during start-up because of problems with the owners’ credit records. The results also indicate that small and micro tourism businesses of the previously disadvantaged entrepreneurs view legislation intended to develop them, as actually stifling their development, such as the municipal credit laws.

The study recommends that more institutional support should be given to small and micro tourism businesses that are starting up, and government institutions responsible for the development of small and micro businesses need to target the previously disadvantaged communities with their marketing. The Nelson Mandela Metropolitan Municipality and the Small Enterprise Development Agency (SEDA) need to conduct research on alternative non-collateral financing for small and micro businesses. More training programmes on business skills have also to be conducted.
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CHAPTER ONE
INTRODUCTION, PROBLEM STATEMENT AND DEFINITION OF CONCEPTS

1.1 BACKGROUND TO THE PROBLEM

The contribution of the tourism industry to the Gross Domestic Production (GDP) of many countries in the world has increased tremendously over the last five years (Allen and Brennan, 2004:38). Cooper and Sheperd (1996:278) estimates that in 1995, tourism contributed ten percent to the GDP of the world economy, 10,5 percent to the GDP of the United States of America’s economy, and twelve percent to the British economy. The importance of tourism has also increased in the South African economy since 1994. Agreeing with this view the Eastern Cape Tourism Board (2003:114), says, “currently tourism is the fourth earner of foreign exchange in the GDP and this situation has been caused by a number of factors”.

Lickorish and Jenkins (1997:7) regard the following as one of the main factors “… the political changes in South Africa that stimulated tourist arrivals within the Southern African Region…”. Surely, the changed political situation both domestically and internationally, has put South Africa amongst the leading tourist destinations in the world today. This is happening even though the local currency has gained more strength as compared to other currencies (Baloyi, 2004:6).
The growth and development of the small, and micro business sector is acknowledged by most interest groups and policy makers as being of critical importance to the ability of our country to address serious problems of unemployment and income inequalities among the different racial groups as well as the uneven participation in the economic life of the country (Mallane, 2004:24).

Government, parastatals, and other agencies and private sector institutions, to nurture and boost the small business sector to higher development, have undertaken many initiatives and projects. The focus has been on small and micro businesses owned by previously disadvantaged people. To this end the government has passed a number of laws since 1994 to create an enabling environment for the success of the small and micro businesses. The Department of Trade and Industry (1995:3) indicates the stimulation of small and micro businesses, as an integrated strategy to take the economy to higher levels, is a case in point. The National Business Initiative (1998:25) provided for the establishment of a national small business council whose aim is the representation of the interests of small business in the economic debates in the country.

One of the major objectives of government in the transformation of the tourism industry is the development of the small and micro businesses in the whole economy. The Department of Environmental Affairs and Tourism (1996:48) as well as the Eastern Cape Tourism Board (2003:25) mention the creation of entrepreneurial opportunities prominently to underline the importance of this issue.
The development of small and micro tourism businesses was never taken seriously, as a priority in South Africa before 1994; this was worse in tourism as an industry. The contribution of tourism to the Gross Domestic Production was very minimal. The Small Business Development Council (SBDC) was more focused on the manufacturing sector, and for previously disadvantaged people the focus of the SBDC was the development of spaza shops (Department of Environmental Affairs and Tourism, 1996:42). The Port Elizabeth Transitional Local Council (1995:40) mentions “the increased involvement of informal entrepreneurs such as artists, musicians, dancers etcetera in the tourism industry of the city”.

With the establishment of the Nelson Mandela Metropolitan Municipality in 1999, both the small and micro business sector and the tourism industry received a major boost, particularly with the establishment of a municipality department specifically focused to economic development and tourism (Nelson Mandela Metropolity, 1999:36). There is even a tourism strategy in place to deal with the growth of the industry and small and micro businesses in particular.

1.2 THE PROBLEM STATEMENT

The South African Chamber of Business (1999:3) in its criticism of the approaches to small business development in South Africa indicates that it appears from anecdotal and other evidence that many projects and initiatives undertaken by both private and public sectors to make the small and micro businesses grow, are failing.
The Department of Trade and Industry (2003:15) in its annual report, mentions the development of small and micro businesses in partnership with local communities, as one of its five key economic sectors. This emphasis on small and micro businesses is informed by the position taken by government of viewing small and micro businesses as the engine of growth and development. The tourism sector in the metro is also developing steadily. The Nelson Mandela Metropolitan Municipality (2003:59) claims that this is caused primarily by the fact that the area is a central gateway to many attractions in the country.

In the tourism industry as well, there are few small and micro tourism enterprises owned by previously disadvantaged people. This then leads to the following question:

**What are the barriers to the growth of small and micro tourism businesses of by previously disadvantaged people in the Nelson Mandela Metropole?**

In developing a research strategy in order to solve this main problem, the following sub problems have been identified:

- What does literature regard as problems that small and micro enterprises in general and in the tourism sector, experience?
- Why are there few previously disadvantaged small and micro enterprises in the tourism industry in Nelson Mandela Bay?
- What do previously disadvantaged small and micro enterprises in tourism indicate as problems experienced prior to start-up?
1.3 DEFINITION OF CONCEPTS

Some terms used in the study need further expansion, and following is the definition of those terms.

1.3.1 Tourism industry

Lickorish and Jenkins (1997:2) define the tourism industry as the phenomenon arising from a temporary visit or stay away from home or outside the normal place of residence for any reason other than furthering an occupation remunerated from within the place visited. The Department of Environmental Affairs and Tourism (1996:4) explains the tourism industry as all recipients of direct spending incurred by tourists. This includes pre-trip expenditure on bookings, travel and en-route expenditure, and all spending at the destination.

For the purposes of this research, the tourism industry is defined as all the people and facilities that facilitate traveling and accommodation, and look after the interests of tourists as well as people who benefit from them.

1.3.2 Small and micro businesses

According to Burns and Dewhurst (1999:2) small businesses are small firms that have a relatively small share of the market, that are managed by owners in a personalized way and are independent so they do not form part of big businesses.
The National Business Initiative (1998:5) defines small and micro businesses as businesses that employ between five and two hundred people. According to the National Small Business Act (1996), small and micro businesses are defined as small, separate and distinct business entities that include co-operatives, businesses that are managed by one or more owners in any sector or sub-sector of the economy.

For the purposes of this research, previously disadvantaged small and micro businesses refer to small businesses owned by African, Coloured or Indian people and employing 10 people or less.

1.3.3 Start-up

Burns and Dewhurst (1999:20) define a start-up as the process by which an individual arrives at a decision to try to develop a business out of an idea and the process of assembling the resources necessary to begin trading. According Longenecker, Moore and Petty (1996:41) start-up is defined as the resources that would be needed to create a small business from scratch. For the purpose of this research, start-up refers to initial capital to start a small business.

1.4 DELIMITATION OF THE RESEARCH

In order for the research to be manageable it would be delimited according to the type and size, the geographical location as well as the organizational level.
1.4.1 The size and type of the organisation

The research will focus on business organizations that are owned by one or two previously disadvantaged people and employ 10 people or less.

1.4.2 Geographical delimitation

The study will be confined to the Nelson Mandela Metropole only, which encompasses Port Elizabeth, Uitenhage and Despatch.

1.4.3 The industry sectors

The study will focus on small and micro businesses in the accommodation, transport and art and craft sectors of the tourism industry.

1.5 THE IMPORTANCE OF THE STUDY

The small and micro enterprise sector is very crucial to the growth of the South African economy. The growth of this sector is particularly important for the previously disadvantaged areas of the Nelson Mandela Metropole where the unemployment rate has increased from 35% to 42% in the last five years according to the Nelson Mandela Metropolitan Municipality (2004:48).

With the development of small and micro businesses, would come with employment opportunities and the development of the entrepreneurial spirit.
Secondly, the Nelson Mandela Municipality Economic Development, Tourism and Agriculture Business Unit have made tourism one of its key focal points, in its growth strategy for the next twenty years (Nelson Mandela Metropolitan Municipality, 2004:25). The success of each of these projects is going to be measured by how far they have impacted on job creation. There has also been an untested belief in the previously disadvantaged communities of the Metro that the change that has been happening in other sectors of the economy of the metro is not happening in the tourism industry.

This research is going to assist in determining if this belief is true. The previously disadvantaged small and micro business people who are in tourism and entrepreneurs who are interested in entering the industry could be exposed to similar problems experienced by other small businesses. The identified problems could then assist the government in working out ways to assist previously disadvantaged small and micro businesses that want to enter the tourism industry.

The nongovernmental organizations and institutions as well as government departments, who all provide support to small and micro businesses in the tourism industry, are also going to be made aware of the scale of challenges facing the growth of small and micro businesses in tourism.
1.6 LITERATURE REVIEW

There is little literature on the small and micro businesses in the tourism sector specifically. There is however more material on small and micro businesses sector and tourism in general. The University of Port Elizabeth Small Business Unit (2001:2) indicates that the failure rate of small and micro businesses is between 78 and 80% and the mistakes that can be avoided.

Longenecker *et al.* (1996:37) indicate that the factors involved in small business’ lack of growth and failure, form a complex web that is not east to unravel. They further argue that inadequate sales or client attraction for example, might be offered as the reason for the demise of a small business, however, that might have resulted from conditions beyond the control of the small business.

In its comments in the National Small Business regulatory review, South African Chamber of Business (1999:27) believes that the process should lead to the revision of the regulations that must not only remove impediments for small business development. Megginson, Scott and Megginson (2003:14) are of the view that just as small companies made some unique contributions, there are special problems that affect them more than larger businesses. Megginson *et al.* (2003:15) further argue that these problems can result in limited profitability and growth for the small businesses. These writers further cite the unplanned growth of the small and micro enterprises as their failure.
Expanding also on the challenges facing small and micro businesses, the Department of Trade and Industry (1995:10) indicates that problems and constraints differ widely between the various segments of small and micro businesses within the same industry. Baloyi (2004:12) indicated that because of the huge challenges facing small and micro businesses in tourism, chances of sustained business growth are impossible in the industry.

1.7 CHAPTER OUTLINE

The rest of the study is divided into six chapters. Each chapter is related to a part of the research process.

a) Chapter Two

Chapter two presents an in-depth literature review and a discussion of the development of previously disadvantaged small and micro businesses in South Africa. The chapter discusses issues such as legislation, financing, institutional support, and the lack of entrepreneurial skills.

b) Chapter Three

This chapter gives a general overview of tourism in South Africa and specifically deals with the aspects such as tourism segmentation, elements of tourism, and business opportunities in tourism.
e) Chapter Four

This chapter covers the methodology of the research and includes items like the research design, the questionnaire, and the data analysis.

d) Chapter Five

This chapter deals with the results, questions, and the analysis of the questionnaires. The researcher analyses every question in the questionnaire.

e) Chapter Six

This is where conclusions and recommendations are made on each of the barriers that have been identified in chapter five. A conclusion is drawn on the result of each barrier, and that is followed by recommendations on how to solve the problems identified.

1.8 SUMMARY

In this chapter the problem statement and the outline of the other chapters has been done, the next chapter would deal with the literature review in depth, in relation to the barriers confronting small and micro tourism businesses of previously disadvantaged entrepreneurs in the Nelson Mandela Metropole.
CHAPTER TWO
THE PROBLEMS EXPERIENCED BY SMALL AND MICRO BUSINESSES

2.1 INTRODUCTION

In chapter one the background to the problem, problem statement, delimitation of the research, the importance of the study and the literature review were discussed. In this chapter an overview of problems experienced by small and micro businesses in South Africa, is going to be discussed with reference to; the development of small and micro business in South Africa, and particularly in the Nelson Mandela Metropole; factors that hinder as well as influence the development of small and micro business in South Africa, problems experienced by small and micro businesses in South Africa and what government has done to solve these problems.

In characterizing problems facing small and micro businesses, Nellis (1997:1) classify them into two broad categories namely, the problems of getting into business and the problems of staying in business. This chapter will focus on the problems faced by small and micro businesses. Mallane (2004:14) further concedes that the small and micro business sector in South Africa has many problems and that the agencies responsible for their development have a disappointing track record in that they have not been able to adequately develop a large number of these businesses. The review will attempt to elaborate on the development of small and micro businesses in South Africa and in the Metro including the problems experienced by these business entities.
2.2 THE DEVELOPMENT OF SMALL AND MICRO BUSINESSES IN SOUTH AFRICA

Gerding (1999:47) indicates that the development of small and micro businesses in any country is never a smooth and quick process, there are pitfalls, and the duty of policymakers is to learn from those mistakes. Christianson (2005:10) believes that the development content of small and micro businesses is one of the unemployment and significant inequalities and it is believed that small and micro businesses can contribute to employment creation and the reduction of inequalities and that, in contrast to government and large corporations that are shedding jobs, small and micro businesses promote job creation and redistribution.

Ntsika Enterprise Promotion Agency (2000:10) indicates that the small and micro businesses in South Africa contribute 19.7 per cent of the GDP and the small and micro business sector plays a very important role in employment-creation, particularly in agriculture, construction and transport. However, by the same token, South Africa’s enterprise density of four is lower than most of the developing countries, and that of the Eastern Cape, which is two comma nine is lower than the national average. The enterprise density measures the number of entrepreneurs per 100 inhabitants of a particular country or region.

For many years the small and micro business sector was completely neglected by policy makers and black owned small and micro businesses were actively discouraged by repressive measures according to Christianson (2005:12).
The biggest challenge for the government since 1994 has been how to create an environment that enables the emergence of a vibrant, dynamic and sustainable segment of previously disadvantage small and micro businesses with little resources within the limitation of other competing developmental challenges facing the country.

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995) was the first formal major effort by the government to design a policy framework looking at the whole spectrum of mechanisms for small and micro business support. The White Paper on National Strategy for the Development and Promotion of Small Business is just setting a broad framework that has to be followed in dealing with the development of small and micro businesses.

The Department of Trade and Industry (1995:17) mentions a number of fundamental principles that underpin the development of small and micro businesses. Among others was the integration of the small and micro business sector into the larger economy, the linking of small and micro business support with generally accepted labour, managerial and taxation standards, as well as an emphasis on black advancement in the small business sector. The Department of Trade and Industry (1995:9) indicates that business activity before 1994 was dominated by big business, and small and micro businesses faced many constraints, which they could not solve on their own. Mallane (2004:30) indicates that despite these impediments, previously disadvantaged people had on their own, proved to be highly present in the and small and micro business sector of the economy.
The assertions in this paragraph point to the critical role that can be played by small and micro businesses in solving unemployment in South Africa and how the government and its agencies plan to support them. This then leads to the next paragraph, which deals with the development of small and micro businesses in the Nelson Mandela Metropole.

2.3 THE DEVELOPMENT OF SMALL AND MICRO BUSINESSES IN THE NELSON MANDELA METROPOLE

The Department of Trade and Industry (1995:46) indicates that there is a realization all over the world that the most effective level for the promotion of small and micro businesses is the locality, be it a village, town, city or a metropolitan area. This view is based on the fact that local authorities have a direct contact with small and micro businesses more frequently, and also the infrastructure they provide plays a very important role for the development of small and micro businesses.

The Nelson Mandela Metropole is the biggest municipality in the Eastern Cape according to the Eastern Cape Socio Economic Consultative Council (1998:45). Together with the Buffalo City, the Nelson Mandela Metropole forms the only economic development nodes in the whole province. This always attracts people from the rural areas to come to look for job opportunities, and many of them find these jobs in the micro and survivalist sectors of the economy. Like in the rest of the country, small and micro businesses were never developed in the Nelson Mandela Metro before 1994.
Even after this period, it was only some nongovernmental organizations and some government department that were dealing with small and micro businesses in a fragmented manner, competing with one another (Mallane, 2004:26). Some of these institutions were the:

- Department of Manpower;
- University of Port Elizabeth Small Business Unit;
- Business Partners;
- Eastern Cape African Chamber of Commerce;
- Khanya;
- Council for African Hawkers and Informal Business, and
- United States Agency for International Development.

It was only in 1997 that the Port Elizabeth Transitional Local Council (which is the predecessor of the Nelson Mandela Metro) developed the first policy document to give a framework for the development of small and micro business in the Nelson Mandela Metro. This happened when a document called the Local Economic Development (LED) policy document was formulated. The Port Elizabeth Transitional Local Council (1997:10) mentions three key areas as steps to reorganize the small business sector in the Nelson Mandela Metro (then only focusing in Port Elizabeth). These areas are:

- The small and micro business forum that has to be established where all small and micro businesses in the metro would meet and address common issues;
• The policy raises the provision of facilities and infrastructure from where the small and micro businesses would operate, and these include land, accommodation with running water and toilet facilities. This function would be done together with the private sector, and

• The provision of resources in the form of direct capital funding, partnerships, joint ventures, grants-in-aid as well as the changing of the council’s procurement policies to support small and micro businesses.

All these points place small and micro businesses at the center as vehicles for economic growth in the metro. The Nelson Mandela Metro (2002:6) mentions the Integrated Development Plan (IDP) as a key document that further concretized what was contained in the local economic development policy document in as far as the development of small and micro businesses is concerned. It is in this IDP document that support and development of linkages between suppliers, producers, marketers and consumers of small and micro businesses is mentioned prominently.

The momentum towards the strengthening of small and micro business in the metro was further enhanced in the economic development strategy document called 2020 City-Wide Economic Development Strategy (Nelson Mandela Bay: 2004). The Nelson Mandela Bay Municipality (2004:14) mentions the:

• Development of a one-stop business science and technology center whose aim is to create an entrepreneurial cluster that would be able to compete globally;

• Support and facilitate networking on any new projects in the metro. This would make it possible for small and micro businesses in the metro to get information on products and services they more easily, and
- Enhancement of small business support by providing funding for infrastructure, capacity building and economic intelligence for small business.

The practical implementation of what is contained in the LED document and the IDP document is found in the number of programmes that are currently in place in the Metro according to the Nelson Mandela Bay Municipality (2004:10) and these include:

- The Coega Industrial Development Zone;
- Madiba Bay Safari World;
- The Statue of Freedom;
- The Njoli Square Development;
- The International Conference Center;
- The Motherwell Cultural Village, and
- Greater Addo Elephant Park.

All these projects are giving wide scope for the overall development of small and micro business in the Metro. Although the documents on the development of small and micro business in the Metro has been developed some time ago, small and micro business is not yet fully developed in the Metro. The next section is going to discuss more about factors that influence the development of small and micro businesses.

2.4 FACTORS AFFECTING THE DEVELOPMENT OF SMALL AND MICRO BUSINESSES IN SOUTH AFRICA

The small and micro business in South Africa has developed against a background of many factors that have influenced their development.
The Department of Trade and Industry (2003:13) mentions the following factors that have influenced small and micro business negatively, particularly since 1994:

- A strong domestic consumer demand which has been underpinned by a low household debt particularly since 2002;
- A high level of formal sector retrenchments going with a low growth in employment, and
- At the enterprise level the cut in personal income tax as well as the increase in government spending are mentioned.

On the other hand, the University of Port Elizabeth Small Business Unit (2001:17) mentions the following factors as influencing the growth of small and micro business in South Africa:

- A big increase in the foreign entrepreneurs and informal traders in South Africa since 1994;
- An escalation in the level of crime particularly in black townships;
- The high levels of HIV/AIDS infection rates which affect small business, and
- The rapid increase in technology innovations, which increases the level of development between small and big businesses.

Although in the overall these factors have an encouraging effect on the development of small business in South Africa, there have been persistent problems, which are going to be discussed in the following section.
2.5 BARRIERS CONFRONTING SMALL AND MICRO BUSINESSES IN SOUTH AFRICA

The growth of small and micro businesses can either mean the development of the small and micro businesses already existing in terms of their profit margins and individual growth. On the other hand, growth can mean an increase in the number of small and micro businesses entering the economy. The investigation will focus on the latter interpretation.

In characterizing problems facing small and micro businesses, Nellis (1997:1) puts it into two broad classes namely the problems of getting into business and the problems of staying in business. Gerding (1999:50) on the other hand is more specific when mentioning the following as the reasons for the presence of few small and micro businesses in many countries:

- Lack of government support for small and micro businesses, and
- Lack of access to finance.

The two authors seem to agree on the lack of support by government as well as the lack of finance as the two reasons for the smaller number of small and micro businesses. Scarborough and Zimmerer (1996:24) also have a similar argument when they mention limited resources and lack of finance as major constraints to more small and micro businesses entering the market. Scarborough and Zimmerer (1996:24) however add a third issue which they consider a problem and that is a lack of entrepreneurial skills among people of developing countries, and by this they refer to the basic skills to form and run a business successfully, without adequate resources at times.
In South Africa, serious attention and acknowledgement of problems existing in the small and micro business sector was only done after 1995. The Department of Trade and Industry (1995:3) mentions the following problems,

- Inadequate and limiting legislative framework;
- Inadequate institutional and support;
- Difficult access to finance by small and micro businesses, and
- Lack of entrepreneurship culture.

On close scrutiny, the problems mentioned by Gerding (1999:50) are also related to the problems mentioned in the White Paper on Strategy for the Development and Promotion of Small Business (1995). The analysis of problems experienced by small and micro businesses would therefore focus on a combination of the problems mentioned in the previous sections and these problems would be discussed in details in the next section.

2.5.1 Inadequate institutional support

One of the challenges that confronted small and micro businesses in the post apartheid period has been the lack of impact that institutions dealing with the development of small and micro businesses, had been having on the sector. Murphy (1996:28) states that in most developing countries, institutional support for small and micro businesses has been piecemeal and lacks coherence. Macleod and Terblanche (2004:247) seem to agree with this assertion when they state that in many situations programs to build institutional support are not well marketed by government with the result that, they are only used by those who actively seek them out.
Macleod and Terblanche (2004:249) even go further and question the quality of the programs in South Africa where there is a big variation in these programs with some of them far too simplistic for the needs of small and micro businesses. The Department of Trade and Industry (1996:11) indicates that there was no clarity as to which department is responsible for small and micro businesses. There was also little coordination between the efforts of government, the private sector and the nongovernmental organizations to tackle the problems.

There was sometimes even competition among the institutions. All the previously authors mentioned that there is a problem around the coordination of institutional support for small and micro businesses. They acknowledge though that there is institutional support but it is not making much impact on the development of small and micro businesses. The Department of Trade and Industry (1995:19) established five institutions that will deal with small and micro business development and support.

The Department of Trade and Industry (DTI), which has the primary responsibility to formulate, coordinate and monitor the national policies related to small and micro businesses, is the first of such institutions. The support for small and micro businesses is however a shared responsibility between all spheres of government, national, provincial and attention is now falling increasingly on the responsibility of the local government and nongovernmental organizations (Department of Trade and Industry, 2003:67).
In the consultation processes with the regional chambers of business and the development co-operations, the feeling was strong about the partnership role that these bodies need to play in nurturing and developing small and micro businesses because, they feel that they are the organs closer to the small and micro businesses and therefore understand the circumstances in which these companies operate better (Department of Trade and Industry, 1995:37).

In trying to deal with some of the capacity problems of small and micro businesses, the Department of Trade and Industry (2003:29) mentions the launch of the Companies and Intellectual Properties Registration office to shorten the long process of company registration. Also, Ntsika Enterprise Promotion Agency (2000:80) alludes to the establishment of a Business Referral and Information Network, which is a web-based structure with linkages with other service providers to provide important information to small and micro businesses. What can be clearly noted is fact that all these institutions do play a role in the development of small and micro businesses, but that progress is nullified by the duplication of resources they are undertake.

Mallane (2004:18) admitted that indeed there is sub-optimal performance on the part of these institutions. One of the reasons mentioned for this lack of performance is the general distrust of these external agencies by the small and micro businesses on one hand, and the incapacity of these support institutions to persuasively raise awareness about their effectiveness and existence- small and micro businesses prefer to see a state department doing the task directly instead of “an outsider”.
Chuene (2005:61) indicates that as a way of dealing with this constraint, the government has formed an institution called the Small Enterprise Development Agency (SEDA). Among the objectives of this body are the following:

- The elimination of institutional duplication in the sector;
- Optimization of resource utilization;
- Improvement of the geographical outreach through an integrated service delivery network, and
- A comprehensive response to needs, capacities and opportunities of the small business sector.

Christianson (2005:18) indicates that with the launch of SEDA in regions, 80 per cent of the focus would be on small and micro businesses, unlike the previous institutions, which had offices in Pretoria only, there would be 300 offices throughout the country interacting directly with all the small and micro businesses. However, further progress is also hampered by legislation, which is going to be discussed in the next section.

2.5.2 Legislation

Scarborough and Zimmerer (1996:702) make the point that although most small and micro businesses recognize the need for some regulation of business, most believe that the regulation process is overwhelming and out of control. The major complaint small and micro business owners have, concerning government regulation revolves around the cost of compliance. For small and micro businesses, the regulatory compliance cost per employee, is significantly higher than those of large businesses with whom they compete.
Adding on this, the South African Chamber of Business (1999:15) indicates that one of the constraints that is limiting the development of small and micro businesses has been legislation that is stifling the environment conducive to small and micro business development. The South African Chamber of Business (1999:15) mentions the following laws as having this effect:

- The Labour Relations Act;
- The Basic Conditions of Employment Act;
- The Procurement and Taxation laws, and
- The Company Law.

The South African Chamber of Business (1999:16) indicates that collectively, these laws have the following effect on small and micro businesses:

- Addition of more costs to small and micro businesses because of the lack of capacity;
- Inability of small and micro businesses to quickly dismiss employees because of a long procedure that has to be followed in dismissals;
- Stipulation of the number of working hours in each sector regardless of the conditions in the sector;
- The cumbersome requirements in the registration of a company, and
- The high cost of taxation because of the complicated nature of taxation.

Macleod and Terblanche (2004:168) further expanding on this, indicates that the difficult conditions caused by the labour laws on the small and micro businesses in South Africa, make the already burdensome administrative obligations more heavier.
This, among others, is caused by the fact that any labour dispute that might arise because of the implementation of the law would require evidence. Macleod and Terblanche (2004:211) argue that although small business in general have received a two year reprieve from having to compile an information manual for public scrutiny, as required by the Promotion of Access to Information Act, this situation was going to change from the beginning of 2005.

They now have to submit a list of documents they keep for perusal by the public. Kwaku (2004:23) agrees to the high cost of doing business in South Africa due to these administrative and regulatory laws, arguing that these laws are the key constraint to the development of small and micro businesses in the whole of the Sub-Saharan Africa. Kwaku (2004:25) specifically mentioned the business registration and licensing requirements, which are cumbersome and take a long time, where an onerous number of steps have to be taken before a business can be registered. This however applies to all business.

While other experts refer generally to all laws that impact negatively of the development of enterprises, Thale (2005:27) singles out South Africa’s laws as commonly perceived to be a constraint to the formation and labour absorption capacity of small and micro businesses. Thale (2005:29) further argues that these laws make South Africa to have a rigid labour market and he defines a rigid labour market as the one where employment conditions and wages have a negative effect on the whole economy because they are standardized throughout all the industries regardless of the size of the location of the business.
Expanding further on the issue of South Africa’s labour laws, Stokes (1998:225) argues that legally employers in South Africa can employ and remove whoever they want, but they have to do that strictly according to the laws and regulations and that is where the problem lies particularly for the small and micro businesses who have neither the resources nor the expertise to do that. Ray (2005:6) argues that, rather than addressing the symptoms of the non-performing small business sector through labour laws, the government should be focusing its attention on strengthening the competitive edge of small and micro businesses through appropriate supply-side measures, including skills development.

There is no agreement however on how to deal with these labour laws as shown by Congress of South African Trade Unions (1998:26) where it argues that any proposed amendment to the labour laws in order to accommodate small and micro businesses would be an “employer blackmail” because the country’s laws are flexible enough in their current form. Problems mentioned in this section indicate that despite the progress made in promulgating laws to develop small and micro businesses, some of these laws are the cause of the underdevelopment of these businesses. As a result, Ntsika Enterprise Promotion Agency (2000:72) states that the National Small Business Regulatory review process has been set up by the Minister of Trade and Industry, to make recommendations on reforms to be made on laws that hinder the development of small and micro businesses.

To this end, Christianson (2005:56) indicates that the President in his State of the Nation address, promised to simplify the business registration procedure.
These measures were followed a few days later by the announcement of a blanket exemption of the small and micro business from the skills development levy to simply the operating environment of the small and micro business. The impact of the problems of these laws is made worse by the lack of finance and financial skills.

2.5.3 Lack of access to finance

Gerding (1999:38) is of the view that acquiring capital and dealing with financial institutions is particularly difficult for small and micro entrepreneurs who want to start their businesses. Gerding (1999:38) further mentions the following as the specific hindrances to new small and micro businesses:

- The small size of these companies, which does not make much business for the bank;
- Lack of proper financial sophistication;
- Risk aversion;
- Lack of credit profile, and
- The collateral requirements.

Gerding (1999:63) indicates that all small and micro businesses whether they are starting or are already operating commonly experience access to finance and financial problems. This may be in the form of inadequate initial funding, insufficient working capital or cash shortage. Macleod and Terblanche (2004:10) argue that the lack of finance is seldom a good reason not to start a small and micro business, because a person can get money from friends and family if there is a resolve.
Christianson (2005:33) indicates however that almost every conceivable effort has been tried in South Africa to pump money into the small and micro business sector but this seemingly has not helped. Mention is made of the founding of the specialized retail finance institutions like the community bank. These however collapsed because of a too rapid expansion.

Also, banks created specialized micro finance units, but by 2004 all those units had collapsed. Ntsika Enterprise Promotion Agency (2000:48) also indicates that since Kula’s inception about 67 per cent of its loan budget was given to small and micro businesses and about 60 per cent of those loans were made to small and micro businesses in urban areas. The institution however lost R23 million in bad debts and loans written off in the year 2000 alone. In the process of financing small and micro businesses, Khula has learnt a number of lessons, and one of those is that there is an extremely high risk in servicing the micro businesses.

Ntsika Enterprise Promotion Agency (2000:49) also states that some of the Retail Finance Intermediaries that Khula used were inexperienced in respect of the on-lending to proceed due to Khula’s need to quickly finance a large number of small and micro businesses. The intermediaries also did not have bad debt management provisioning policies and Khula failed to scrutinize the weak lending methodologies of certain intermediaries properly and their inadequate database. Most of these intermediaries were mainly emphasizing what is done best in the developed countries and not take into account the development character of South Africa.
As a way of dealing with this problem the government passed the Small Business Finance Act, which, among others, proposed a number of steps including increasing market access for small and micro businesses. The Act also encourages the existing financial institutions to become more involved in the small and micro businesses segments, as well as the recognition of the non-conventional collateral types. Furthermore, the government established Khula enterprise and Ntsika.

According to Ntsika Enterprise Promotion Agency (2000:12), Khula’s clear mandate is to reach out to previously disadvantaged individuals who need access to finance for entrepreneurial purposes. To this end, Khula has a programme called Khulastart, which is an entry-level programme in the form of loans to the survivalist sub-sector of the small and micro businesses according to the National Business Initiative (1998: 52).

A positive development recently in South Africa has been the conclusion of Financial Charter Agreement between the banks, government and other interested stakeholders. In this Charter, a pledge has been made by banks to land an amount of two billion rands to black small and small businesses over a period of four years. Furthermore, the banks would divulge their lending profile to the public and also a mentoring and an after care service would be given to the small and micro businesses that have been given loans. This is indeed a big step that would assist the small and micro businesses in a big way. The problems mentioned in the previous sections have been worsened by the lack of entrepreneurial skills on the part of the small and micro businesses particularly from the disadvantaged communities.
2.5.4 Lack of entrepreneurial skills

The presence of entrepreneurship skills in the owners of small and micro businesses is one of the important determinants of the success of that particular enterprise. Nieman, Hough and Nieuwenhuizen (2003:14) refer to these skills as critical success factors that make or break the small and micro businesses. Nieman et al. (2003:16) further mention creativity and the innovation of the entrepreneur, as cutting across all entrepreneurship skills. Entrepreneurship skills also include the following skills, which are going to be discussed in the following subsections.

2.5.4.1 Planning and organising skills

Hellrigel, Jackson, Slocum, Staude, Amos, Klopper, Louw and Oosthuizen (2001:11) define planning as a process that defines organizational goals and proposes ways to reach them while organizing is the process of creating a structure of relationships that will enable employees to carry out management’s plans and meet organisational goals.

Donnelly, Gibson and Ivancevich (1995:154) is of the view that managers in any business organization, have a primary responsibility of planning and this is very essential to achieve any level of performance. Longenecker et al. (1996:114) indicate that any planning would start with a business plan where the nature and the context of the business opportunity identified, would be exposed.
2.5.4.2 Marketing skills

Bowler and Dawood (1995:22) defines the components of the entrepreneurship skills as the ability to:

- Defines the market of the business;
- Segment that market into small sub-markets, and
- Identify competitors, in order to gain a competitive advantage.

Morrison, Rimmington and Willliams (1999:165) also state that marketing is about satisfying the needs of customers and is very important for business. There is always a problem when there is there are no marketing skills in an organization.

Julien (1998:189) points out that the lack of marketing skills in small and micro businesses leads to a situation where about seventy percent of the market does not know about the products and services provided by the particular small and micro businesses. Julien (1998:189) further states that absence of marketing skills would also make the small and micro businesses not to know the competitors in the market.

De Beer, Kritzinger, Venter, Steyn, Labuschagne, Ferreira, Groenewald, Stapelberg and Nieuwenhuizen (1996:45) argue that most small and micro businesses tend to focus on the day-to-day operations of the business and do not have sufficient time to devote to the marketing of the business. This is caused by the fact that sometimes they consider marketing as a waste of time.
Nieman et al. (2003:32) raise the point that in South Africa few small and micro businesses, especially from the previously disadvantaged communities, start their businesses with an original idea or a plan to achieve a sustainable competitive advantage through their products. Most of these small and micro businesses tend to follow “the group” hopping that whatever has worked for others in the past will work for them as well.

Nieman et al. (2003:33) is of the view that, this constraint is caused by the fact that marketing is not given a priority in their overall business approach. Bowler and Dawood (1995:33) recommend the following to address the problem of the lack of marketing skills in small and micro businesses:

- Marketing training which the small and micro businesses should budget for. This would upgrade the marketing appeal and competencies of these small and micro business;
- The small and micro businesses should have an early commitment to the market where the needs of the market are placed centrally in determining the product type and the price, and lastly
- Small and micro businesses should have a strong sense of networking creating both vertical and horizontal linkages. The government should play a prominent role in this regard.

2.5.4.3 Training and human resources skills

Small and micro businesses also lack in critical skills that are needed by a modern company to operate particularly in a competitive environment.
Nieman *et al.* (2003:34) mention that there is generally a shortage of management and leadership skills in many small and micro businesses. Julien (1998:42) further indicates that in view of their limited resources, small and micro businesses tend to ignore this area completely or they do not give it any adequate attention.

Julien (1998:42) further argues that small and micro businesses cannot shoulder this huge responsibility of developing human resources alone; the government has to be involved either directly or indirectly. There has to extensive training programs that would target the small and micro business sector. Longenecker *et al.* (1996:404) define the purpose of training as preparing workers to perform duties for which they have been hired for more efficiently.

The government programmes however, have to be adapted to the management philosophy and behaviour of small and micro businesses. All this human resources development has to happen in a planned environment. Helriegel *et al.* (2001:245) indicate that every business needs to have a human resources plan where the human resources needs of the organization are forecasted and developed. This in essence is a broad plan where the goals and action plans and time frames to ensure a right number of individuals for the organization.
2.5.4.4 Time management skills

One of the critical skills that affect small and micro businesses is the skill of time management. Zeelie, De Beer, Jacobs, Nieuwenhuizen, Rossouw, Stapelberg and Watson (1998:78) indicate that the lack of this skill affect the small and micro enterprises even before they start, and the acquisition of these skills happens over a long period of time and this needs serious commitment from small and micro businesses. Zeelie et al. (1998:79) further mentions five phases of time management and these are:

- Needs determination where issues to be addressed are assessed if they are indeed necessary
- Writing down of all the needs in an activity plan;
- Collection of information on the past time spent on activities;
- Analysis of these past activities to see which ones wasted time, and
- Action steps to improve time management.

2.5.4.5 Conflict resolution skills

In the process of forming the small and micro business, and also during its lifetime, the entrepreneur faces many conflict situations where conflict management skills are needed. Robbins and De Cenzo (1995:342) indicate that the ability to manage conflict is one of the most important skills any manager needs to poses.

This applies equally to managers of large and small businesses. Tosi, Mero and Rizzo (2000:297) define conflict management skills as the ability to handle incompatible differences resulting in some form of interference of opposition.
Tosi et al. (2000:297) went on and say that skilled managers should know the five different techniques of handling conflict, which are:

- Avoidance;
- Accommodation;
- Competition;
- Compromise, and
- Collaboration.

Zeelie et al. (1998:118) argue that conflict arise in a work situation in South Africa because people have different cultures, political views, religious and moral convictions, values and philosophies of life. Managers therefore need to have skills that are going to channel these differences to the benefit of the business enterprise.

2.5.4.6 Negotiation skills

Christopher (1996:7) indicates that negotiation skills are very important for any business more especially when the business is starting. Christopher (1996:13) further mentions talking and listening as constituting the most important aspects of negotiation skills. Donnely et al. (1995:453) meanwhile view managers in any organization as performing the negotiation function with all stakeholders because of the position they occupy. Donnely et al. (1995:404) further view the negotiation skill as lacking in most small and micro businesses.
2.6 SUMMARY

This chapter has outlined the problems hindering the development of small and micro businesses in South Africa. These policies that have been put in place to deal with the development are indeed good policies but in the face of so many problems that still face this sector, more needs to be done to deal with these problems. In this chapter the development of small and micro businesses has been discussed and the next the specific problems that hinder the development of small and micro businesses are going to be discussed.
CHAPTER 3
AN OVERVIEW OF TOURISM IN SOUTH AFRICA

3.1 INTRODUCTION
In chapter two the problems facing small and micro businesses were discussed. In this chapter the development of the tourism industry will be discussed, starting with the development of tourism, followed by the tourism segmentation, the elements of tourism, business opportunities in tourism and the summary.

3.2 THE DEVELOPMENT OF TOURISM
Jordaan (2000:8) traces the first formal institution that contributed to the development of tourism as a serious sector of the South African economy as far back as 1947 when the body known as the South African Tourism Corporation was first established. The number of tourists increased rapidly since then, despite the sometimes-negative publicity that the country was getting because of its social and political policies. Jordaan (2000:9) notes however that it was not until 1983 that tourism in the country experienced a continuous growth. This was the year in which three bodies responsible for tourism in the country merged to form the state subsidized institution named the South African Tourism Board. In 1996 the name was changed to Tourism South Africa according to the Department of Environmental Affairs and Tourism (1996:10).

The responsibility of this body was to work together with the Department of Environment Affairs and Tourism to market South Africa thereby increasing tourism to the country. Another important institution was the Business Trust, which was created in 1999 according to Jordaan (2000:57).
The aim of this institution is to work in collaboration with the Department of Environmental Affairs and Tourism to create job opportunities in the tourism sector. The White Paper on the Development and Promotion of Tourism (1996) defines the role that has to be played by provinces when it indicates that Schedule 6 of the constitution makes specific provision for tourism to be a provincial responsibility and the different spheres of government have to work together in promoting tourism. National government would coordinate, regulate and monitor while the provincial government together with the tourism institutions would formulate policies that would be applicable to their areas, in line with the national positions.

The South African tourism industry has developed tremendously over the years. This can be seen in the number of tourists visiting South Africa every year. Allen and Brennan (2004:19) said to this effect that in 1994 there was a sharp rise of 18.6 percent in tourist arrivals and this number grew to 22.3 percent in 1995. Allen and Brennan (2004:18) contrast this situation to the one that existed before 1994, when there was a huge loss of interest in visiting South Africa due to political reasons. A number of South African tourism promotion offices internationally were closed, domestic tourism stagnated, as the majority of citizens could not enjoy and access the tourism facilities. Although a number of these institutions were created to operate at the national level, they have structures at the provincial and local levels.

In the Eastern Cape, the structure responsible for tourism is the Eastern Cape Tourism Board, which was established in 2002 (Eastern Cape Tourism Board, 2003:54). Some of the functions of the Eastern Cape Tourism Board are:

- Provision of advisory information to government;
• Promotion and undertaking of research related to tourism, and
• Monitoring and assessment of the training of personnel in hotels.

At the local level, the Department of Environmental Affairs and Tourism (1996:33) indicates that specific provincial functions are the implementation of policy, environmental planning and land use as well as tourism marketing. Jordaan (2000:46) further indicates that the Municipal Structures Act makes provision for the promotion of local tourism in a municipal area. The local government should create an environment where the private sector can develop more products, and in the process create opportunities for tour operators, travel agents and owners of tourist accommodation to benefit. In order to do this, the Department of Environmental Affairs and Tourism (1996:36) indicates that in order for local government to do this, it has to do the following:

• Embark on effective education and training and cultivate awareness among tour operators, transport owners and accommodation owners, and
• Establish strong linkages with other sectors of the economy.

As tourism developed in the country it needed a specific focus, which is going to be discussed in the next section.

3.3 TOURISM SEGMENTATION

Unlike in the past where there was a generic tourism strategy focusing mainly on the European market, the South African tourism market is now segmented, according to the Department of Environmental Affairs and Tourism (2000:3).
In his definition of the market segmentation, George (2001:111) calls it the way in which tourism and hospitality companies divide a market into smaller, more clearly defined groups that share similar needs, wants and characteristics. Two segments have been identified namely, the domestic market and the international markets. The Department of Environmental Affairs and Tourism (2000:3), points out that the domestic market is included as it currently provides significant value to the South African economy and it has untapped value and potential for growth only if the issue of seasonality, geographic spread and the limited trip expenditure can be effectively addressed.

The Department of Environmental Affairs and Tourism (1996:6) indicates that this market would continue to grow, as previously disadvantaged people became tourists and travelers. The White Paper on Development and Promotion of Tourism (1996) further indicates that domestic tourism is focusing on exposing South Africa to other countries and it makes 87 per cent of the whole of the South African tourism. The domestic tourism segment can be further subdivided into many other sub-segments but eco-tourism and spiritual tourism are most dominant in the domestic segment according to Ntsika Enterprise Promotion Agency (2000: 6).

According to the Department of Environmental Affairs and Tourism (2000:3), the main aim of the domestic tourism is to grow the value of the domestic market, by combating issues of seasonality. This happens where most people travel mainly during specific seasons of the year instead of traveling all the year round.
Also the other objective is to increase the geographic spread and change the habit of people mainly traveling within their own provinces and encourage more destinations and activities. The Department of Environmental Affairs and Tourism (2000:25) indicates that South African tourism is beginning to focus on specific targets per segment in its approach to the international market. These target ranges are volume growth of between six per cent between 2002 and 2005, as well as revenue growth of between 12 and 13 per cent between 2002 and 2005. These targets will be assisted by the strategic focus, which the tourism authorities have devoted to attracting the African tourism market because about 12 per cent of the international tourism comes from Africa. Tourism comprises three basic elements and these elements are discussed in the next sections.

3.4 ELEMENTS OF TOURISM

Vraker, Betemy, Conelleny, Foumer, Davids, Moscado, Le Roux, Marx, Mukheibu, Verkuil and Woker (2002:273) mention the three elements of tourism as being accommodation, transport and art and craft. These are discussed in the next section.

3.4.1 Accommodation

Accommodation provides the base from which tourists can engage in the process of staying at a destination according to Page (2001:165). Accommodation is the focal point for the hosting of guests and visitors, where a guest may pay a fee in return for a specified service, grade of accommodation and associated services such as food and beverages.
Pender and Sharpley (2005:15) point out the fact that the accommodation sector is enormously fragmented and diverse in terms of size, type, style, location and ownership. Pender and Sharpley (2005:16) further indicate that these establishments include bed and breakfasts and self-catering accommodation.

Like the tourist, accommodation assumes many forms and not all of them fit the conventional image of the hotel. Bennett and Strydom (1995:44) classify accommodation into two broad categories and these are the services and the self-catering sectors. Bennett and Strydom (1995:44) define these categories as follows:

- Serviced accommodation establishments have staff on the premises, responsible for various services such as room service, meals, and laundry services etcetera. This category includes hotels, motels, guesthouse, game lodges and bed and breakfasts.
- Guesthouses and bed and breakfast are privately owned establishments that offer meals to paying guests. Lubbe (2003:40) indicates that bed and breakfasts have a competitive edge over other accommodation establishments because of the homely environment they create.
- Self-catering accommodation provides a place to sleep, but does not include any additional personal services.

Page (2001:177) indicates that in the post war period there has been significant growth of non-serviced accommodation characterized by innovation ranging from caravan parks to self-catering apartments. Bennett and Strydom (1995:43) indicate that accommodation may range from international establishments to bed and breakfasts.
Bennett and Strydom (1995:43) further indicate that bed and breakfasts are becoming one of the fastest growing sectors in the tourism industry mainly because of the homely atmosphere they provide.

3.4.2 Transport

Because tourists are travelers, transport is one of the important elements in any tourism development. Jones and Robinson (1998:22) mention the rail, road and the airways as the main forms of transport in tourism. Agreeing with this view, Page (2001:90) indicates that transport is the most critical element that has promoted the growth of both the domestic and international tourism because it links the tourist with the destination. Nieman et al. (2003:39) define the elements of the transport sector as tour operators that develop packages of tourism products for tourists.

Foulkener, Moscardo and Laws (2000:92) indicate that although the link between tourism and transport is fundamental in nature, research into the transport aspects of tourism is a neglected field of study. Page (2001:180) indicates that lack of transport can severely impact negatively on tourists’ enjoyment because transport is an integral part of that holiday enjoyment.

The Department of Environmental Affairs and Tourism (1996:28) indicates that as a way of improving the road transport particularly, the government will:

- Improve standards and quality control among all forms of transportation;
- Establish linkages and co-ordination among the different transport modes, and
- Encourage more open competition.
The Eastern Cape Tourism Board (2003:27) indicates that with nearly two thousand vehicles in the Eastern Cape, there is sufficient transport for tourists that many of the foreign tourists are self-driving, and ninety per cent of the domestic tourists drive their own vehicles when they take a holiday. For the purpose of the study transportation of tourists is also linked with art and craft, which is discussed in the following section.

### 3.4.3 Art and craft

The development of cultural tourism and craft has a big potential to create employment particularly in the poor communities. Bennett and Strydom (1995:8) call the art and craft as part of the socio-cultural attraction as they relate to the history, religion, science, art and culture of a particular group. Bennett and Strydom (1995:9) further indicate that the more this culture differs from that of the tourists, the stronger the desire to visit such a community.

Lubbe (2003:92) argues that the previously disadvantaged people in South Africa have a rich history of art and craft, which consists of cuisine, beadwork, bracelets, dresses and many other products. Lubbe (2003:92) further indicates that it is important that art and craft that is made locally be exposed more strongly to overseas tourists if the previously disadvantaged are to participate effectively in the tourism industry. The Nelson Mandela Municipality (2003:61) states that the integration of cultural tourism in the tourism industry is the responsibility of the local authority.
3.5 CHALLENGES FACING TOURISM

Rogerson (2000:6) describes the small and micro businesses sector in tourism as being mainly informal enterprises, which are in a sector that is generally unregistered and often dominated by opportunities for self-employment. Rogerson (2000:7) further indicates that these enterprises comprise the bottom rung of the ladder of the investment-led entrepreneurship. In addition, Rogerson (2000:6) refers to the small sector tourism as an activity that is very critical, because it represents the area of the economy where opportunities for small-scale enterprises by poor people can be maximized.

The Department of Environmental Affairs and Tourism (1996:10) mentions the promotion of domestic tourism as a priority, in order to optimize opportunities for the development of small and micro tourism businesses particularly in previously disadvantaged communities. Rogerson (2000:5) indicates that in South Africa, small and micro tourism businesses owned by previously disadvantaged entrepreneurs were never viewed as constituting either entrepreneurial initiative or the target market for tourism.

Rogerson (2000:224) went on to argue that unlike in other sectors of the economy, there has been a general neglect of small and micro businesses owned by previously disadvantaged people, in the tourism industry. This means that even today (2003), there is few small and micro businesses owned by previously disadvantaged people in the tourism industry.
Eastern Cape Tourism Board (2003:53) states that the development of small and micro businesses would allow real and effective shareholding in tourism by a large number of people in the Eastern Cape, thereby spreading the share in the country among the population at large. This view is based on the belief that historically disadvantaged people are not yet part of the mainstream economic activities in tourism, and putting them in the economic mainstream can assist in reducing unemployment.

Lubbe (2003:69) indicates that there are a number of challenges that hinder the formation of small and micro enterprises owned by previously disadvantaged individuals in the tourism industry and these challenges are:

- Requirement of substantial security and collateral;
- Lack of assets in the form of land or home ownership that would act as security for loan;
- Administrative red-tape, and
- Little technical assistance or guidance in preparing business plans.

The small and micro businesses have not been fully developed in the tourism industry. This has been particularly the case especially among the historically disadvantaged people.

3.6 SUMMARY

This chapter gave an overview and discussed the development of tourism in South Africa, and although tourism has developed rapidly in South Africa since 1994, there has not been much development in the small and micro businesses because of a number of reasons. The challenge facing the tourism authorities and other
stakeholders is to address the underlying problems that stifle the growth of these enterprises, particularly those from the previously disadvantaged communities. The methodology of conducting the study will be dealt with in the next chapter.
CHAPTER 4
METHODOLOGY

4.1 INTRODUCTION

In chapter two an outline was given of the problems hindering the growth of small and micro businesses and possible solutions for addressing these problems. Furthermore, in chapter 3 an overview of tourism in South Africa was done.

The literature study was used to establish answers to the two sub-problems namely:

- What does the literature study reveal about the problems experienced by small and micro businesses generally and in tourism.
- What does the literature study reveal about the barriers confronting small and micro tourism enterprises of previously disadvantaged entrepreneurs in the Nelson Mandela Metro before start-up?

An empirical study will be used to explore whether the findings of the literature study are indeed so. The research design and methodology of the study will be dealt with in the following sections.

4.2 RESEARCH DESIGN

Allison, O’Sullivan, Owen, Rice, Rothwell and Saunders (1996:4) define research as a systematic enquiry that is reputed in a form that allows the research methods and outcomes to be accessible to others.
Allison *et al.* (1996:4) further state that research is concerned with seeking solutions to problems or answers to questions. The research design for this study was a main problem broken down into sub-problems. Further elaboration of the research will be done through the empirical study, which is discussed in the next section.

### 4.3 PLANNING THE EMPIRICAL STUDY

The empirical study was conducted by means of a questionnaire. The questionnaire was developed from information gathered from the literature study. The results of the questionnaire were then statistically analysed. The process followed during the empirical study is set out below.

#### 4.3.1 The questionnaire

Leedy and Ormrod (2001:191) states that the common instrument used for observing data beyond the physical reach of the observer are the questionnaire. The questions in the questionnaire were chosen to deal with each barrier confronting small and micro tourism business as identified in the literature study.

**a) Types of questions used**

Allison *et al.* (1996:82) indicates that in a research there may be open and closed questions. Allison *et al.* (1996:82) further state that a closed question is possible only where responses are predetermined. This is typically the kind that requires the respondent to tick boxes and this is the method predominantly used in the questionnaire. The questionnaire was divided into two parts, Section A and Section B.
Section A was the biographical questions regarding the geographical location, gender of the owner, level of education, number of employees and the type of service offered. Section B was both open-ended and closed questions.

b) **Wording of the questionnaire**

Thomas (2004:121) states that questions should not lead respondents who do not have clear views of their own on a particular issue. The grammar used in the questions should be simple, and the matters that the respondents need to keep in mind in order to understand the questions, should be limited. Specific terms should be used in preference to abstract ones, so as to ensure a clear understanding of the question by the respondents.

c) **Length of the questionnaire**

Thomas (2004:121) indicates that a questionnaire should not be long and complicated. All the principles mentioned above were followed when the questionnaire was drawn up.

4.3.2 **Administering the questionnaire**

The addresses of seven small and micro tourism businesses were obtained from Nelson Mandela Bay Tourism and friends and work colleagues supplied the researcher with the eleven other respondents. The questionnaire was given to the small and micro businesses together with the covering letter (Refer to Annexure 1). The letter provided the following information:

- Aim of the research,
The fact that the completion of the questionnaire would take less than ten minutes,

An offer to make the summary of the study available, if so required.

The population size was 18 small and micro tourism businesses. Because of the small size of the population, the whole population was taken for the study. The requirements of the sample were the following:

- The sample had to come from the Nelson Mandela Metropole,
- The sample had to contain respondents which were previously disadvantaged people, and
- The respondents had to be older than eighteen years of age.

The questionnaires were given to all the respondents, and when they were completed, they were all collected back by the researcher. Refer to Annexure 2 for the questionnaire and Annexure 1 for the covering letter.

4.3.3 Challenges faced by the researcher in administering the questionnaire

There were very few small and micro businesses owned by previously disadvantaged people in tourism, in the database of the Nelson Mandela Metropolitan Municipality. The researcher had to be assisted by friends and colleagues to increase the number. The researcher had to spend transport money on delivering and collecting the questionnaires from the respondents in different parts of Port Elizabeth and Uitenhage.
There is a lack of co-ordination between the Department of Art and Culture and authorities responsible for tourism, as to how the art and craft sector needs to position itself as a business. Entrepreneurs in this sector stress the fact that they are artists, and they do not regard themselves as running a business.

4.3.4 Data analysis

The researcher used an Excel spreadsheet to assist with analysis of the data where responses were entered into various rows and columns that would make it easy for the researcher to compute. The results would then be analysed and conclusions drawn.

4.4 VALIDITY AND RELIABILITY OF THE QUESTIONNAIRE

The integrity of research is based on the validity and reliability thereof. Leedy and Ormrod (2001:32) state that validity and reliability are terms used in connection with measuring instruments.

4.4.1 Validity

Leedy and Ormrod (2001:32) state that validity is concerned with the soundness and effectiveness of the measuring instrument – if the instrument measures what it is intended to measure and the accuracy it has in measuring. Leedy and Ormrod (2001:33) also indicate the different types of validity and these are:

- **Face validity** – this refers to a situation where the questions are scrutinized to establish their relation to the subject under discussion. This validity ensures the appropriateness of questions.
• **Content validity** – this is related to the face validity and it gauges the accuracy of the instrument in measuring the factors of concern to the study.

• **Construct validity** – refers to the degree to which the content of the study is measured by the questionnaire.

• **Criterion validity** – this is where performance measure is related to another measure that may be set as a standard against which to measure results.

• **External validity** – is the degree to which the conclusion reached in a study may be generalized.

• **Internal validity** – is the freedom from bias in formulating conclusions reached in a study that may be generalized.

In this study, face validity, construct validity and content validity have been applied. The aforementioned validation methods have been used after consultation with knowledgeable academics in the Business School of the Nelson Mandela Metropolitan University.

### 4.4.2 Reliability

According to Leedy and Ormrod (2001:35) reliability is the consistency with which the measuring instrument performs. This means that apart from delivering accurate results, the measuring instrument must deliver similar results consistently. Singleton, Straits and Straits (1995:121) state that reliability may be improved by conducting exploratory studies in the area of interest or by conducting a pre-test on a small sample of persons similar in characteristics to the target group.
The researcher did a pilot survey with six respondents before embarking on the study. As no problems were experienced with the questionnaire, these questionnaires were included in the final sample.

**4.4.3 SUMMARY**

The methodology of conducting the study has been dealt with in this chapter and the next chapter will deal with the analysis of the responses from the respondent.
5.1 INTRODUCTION

In the previous chapter the methodology of conducting the study was outlined. In this chapter the results of the empirical study will be analysed. Section A of the questionnaire relates to the general information regarding the respondents and the industries in which they operate. The information is classified as being the independent variable or biographical details, which is used to facilitate comparisons with the dependent variable.

5.2 RESULTS OF BIOGRAPHICAL DATA

The results of Section A are discussed in the next sub-sections.

5.2.1 Location of the business

The location of the business is illustrated in Figure 5.1.

Figure 5.1: Location of the small and micro business
Figure 5.1, indicates that 94% of the respondents live in Port Elizabeth while six percent live in Uitenhage. There were no respondents living in Despatch.

5.2.2 Position in the business

The position of the respondent in the business is illustrated in Table 5.1.

Table 5.1: Position in the business

<table>
<thead>
<tr>
<th>Position</th>
<th>Number of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>14</td>
<td>78%</td>
</tr>
<tr>
<td>Co-owner</td>
<td>4</td>
<td>22%</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 5.1 shows that 78% of respondents were sole owners, whereas 22% of respondents indicated that the business had more than one owner.

5.2.3 The age of respondents

The age of respondents is shown in Table 5.2.

Table 5.2: Age of respondents

<table>
<thead>
<tr>
<th>Ages in years</th>
<th>Number of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>26-35</td>
<td>2</td>
<td>11%</td>
</tr>
<tr>
<td>36-45</td>
<td>11</td>
<td>61%</td>
</tr>
<tr>
<td>46-55</td>
<td>5</td>
<td>28%</td>
</tr>
</tbody>
</table>
Table 5.2 indicates that 61% of the respondents are in the age groups of 36 to 45 years. Twenty eight percent of respondents are in the age group 46 to 55 years, and only 11% are in the age group 26 to 35 years. No businesses are owned or managed by people in the age groups 18 to 25 years and above 55 years.

5.2.4 Level of education

The level of education of the respondents is shown in Table 5.3.

Table 5.3: Level of education

<table>
<thead>
<tr>
<th>Level</th>
<th>Number of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade 10</td>
<td>2</td>
<td>11%</td>
</tr>
<tr>
<td>Grade 12</td>
<td>3</td>
<td>17%</td>
</tr>
<tr>
<td>Certificate</td>
<td>2</td>
<td>11%</td>
</tr>
<tr>
<td>Diploma</td>
<td>6</td>
<td>33%</td>
</tr>
<tr>
<td>Degree</td>
<td>5</td>
<td>28%</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 5.3 shows that most respondents have a diploma, followed by those with a degree, as qualifications. There are few respondents with a certificate, grade 12 and grade 10, while there are no respondents with grade 8.
5.2.5 Gender orientation of the respondents

The gender orientation of the owners is illustrated in Table 5.4.

Table 5.4: Gender orientation of respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>6</td>
<td>33%</td>
</tr>
<tr>
<td>Female</td>
<td>12</td>
<td>67%</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 5.4 indicates that the majority of owners of small and micro enterprises in tourism in the Nelson Mandela Metropole are women. This is indicated by 67% of respondents in the table. Males constitute only about 33% of the population.

5.2.6 Staff compliment in the business

The staff compliment in the business is shown in Figure 5.2.

Figure 5.2: Staff compliment in the business
Figure 5.2 shows that half of the businesses have between one and five employees with 35% of respondents having employees between six and 10 people while only 15% of respondents have more than 10 employees indicating that there are few small businesses.

5.2.7 Length of time in operation

The length of time in operation is illustrated in Figure 5.3.

**Figure 5.3: Length of time in operation**

The results in Figure 5.3 indicate that most small and micro township businesses in tourism in the Metro have been in operation for more than two years and this is indicated by 45% of respondents in the graph. Thirty-three percent of small and micro businesses have existed for a period of between one and two years, and only 22% of respondents indicate operating for a period of less than a year.
5.2.8 Service offered by the business

The type of service offered by the business is shown in Table 5.5.

**Table 5.5: Service offered by the business**

<table>
<thead>
<tr>
<th>Service</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation</td>
<td>6</td>
<td>33%</td>
</tr>
<tr>
<td>Art and craft</td>
<td>10</td>
<td>56%</td>
</tr>
<tr>
<td>Transport</td>
<td>2</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 5.5 indicates that 56% of the respondents are in the art and craft sector of tourism. The accommodation sector accounts for 33% of the businesses surveyed and the least number was in the transport sector with 11%.

5.3 ANALYSIS OF RESULTS OF SECTION B

The questions in Section B were designed to investigate the barriers confronting small and micro tourism enterprises in the Nelson Mandela Metropole.
5.3.1 Institutional support

The institutional support that the respondents receive is illustrated in Table 5.6.

**Table 5.6: Current institutional support**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMSEC</td>
<td>3</td>
<td>17%</td>
</tr>
<tr>
<td>NM Bay Tourism</td>
<td>2</td>
<td>11%</td>
</tr>
<tr>
<td>DTI</td>
<td>1</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>11</td>
<td>60%</td>
</tr>
<tr>
<td>None</td>
<td>1</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 5.6 shows that 61% of small and micro tourism businesses receive their business support from institutions that are classified as others which, are the Department of Art and Culture (22%), the Department of Environmental Affairs and Tourism (13%) and The Enterprise Promotion (35%).

Only 17% of respondents got support from COMSEC, while the Department of Trade and Industry and Nelson Mandela Bay Tourism each gave support to only about 6% percent and 11% of respondents respectively. No respondents were supported either by Business Partners or the Nelson Mandela Metropolitan University Small Business Unit. Six percent of respondents did not receive support at all.
5.3.2 Awareness about support institutions

Awareness about support institutions is shown in Figure 5.4.

Figure 5.4: Awareness about support institutions

About half of the respondents became aware of the existence of the support institutions from friends while 36% of respondents have been made aware by business colleagues and 14% of respondents has been made aware by the media.

5.3.3 Support during start-up.

Figure 5.5 indicates whether respondents have received support during start-up.

Figure 5.5: Assistance during start-up
Figure 5.5 shows that 73% of respondents did not receive assistance during start-up while only 27% of the respondents indicated that they received support.

5.3.4 Business areas where support was given

Business area where support was given is illustrated in Table 5.7.

Table 5.7: Business areas where support was given

<table>
<thead>
<tr>
<th>Skill</th>
<th>Number of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>15</td>
<td>56%</td>
</tr>
<tr>
<td>Business Plan</td>
<td>6</td>
<td>22%</td>
</tr>
<tr>
<td>Marketing</td>
<td>6</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

As can be seen in Table 5.7 some businesses received support in more than one area. The response indicates that more than half of respondents received assistance during start-up, in the area of financial management. The other two business areas where support was received were the drafting of a business plan (22%) and marketing (22%).
5.3.5 Length of registration period

The length of registration period is illustrated in Figure 5.6.

**Figure 5.6: Length of registration period**

Sixty six percent of the respondent in Figure 5.6, indicate that the registration period is less than 3 months while 28% of respondents show that the registration period is between 3 and 6 months.

Only six percent of respondents indicate that the registration period took more than six months. Fifty five percent of respondents indicated that they were happy with the registration period, while 45% of respondents were not happy. In their motivation, some respondents were unhappy about the long period taken for registration, while other respondents were unhappy about all the administration.
Sixty one percent of the respondents were not happy about laws promoting small businesses in tourism, while 39% were happy. In their motivation, the respondents who were not happy, indicated that their businesses were not benefiting and also the following laws were stifling the development of their businesses:

- Tax laws;
- Labour laws, and
- Municipal credit laws.

5.3.6 Funds for start-up

Where funds for start-up were obtained is shown in Figure 5.7.

Figure 5.7: Sources of start-up

![Figure 5.7](image)

Figure 5.7 indicates that small and micro tourism businesses use their own savings to start their businesses. This is shown by 89% of respondents while only 11% of respondents got a bank loan to start their business.
5.3.7 How easy it is to get funds

An indication of whether respondents find easy to get funds is illustrated in Figure 5.8.

Figure 5.8: Ease of getting funds

![Pie chart showing 78% yes and 22% no]

Figure 5.8 indicates that 78% of respondents said it has not been easy to obtain funds while 22% of respondents said that it has been easy.

5.3.8 Problems in getting a bank loan

Problems in getting a bank loan are illustrated in Table 5.8.

Table 5.8: Problems in getting a bank loan

<table>
<thead>
<tr>
<th>Problems</th>
<th>Number of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit profile</td>
<td>5</td>
<td>36%</td>
</tr>
<tr>
<td>Business Plan</td>
<td>3</td>
<td>21%</td>
</tr>
<tr>
<td>Collateral</td>
<td>5</td>
<td>36%</td>
</tr>
<tr>
<td>Assets</td>
<td>1</td>
<td>7%</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 5.8 indicates that respondents view both the credit profile and the collateral as a problem in obtaining funds for their businesses. This is seen in the 36% given to the two requirements. The business plan is given a 21% response while the lack of assets is given seven percent. Furthermore 86% of respondents indicated that they are of the view that many small and micro tourism businesses are struggling to access funds for start up, because they know of many entrepreneurs who have been declined loan application by banks.

5.3.9 Management of finance

Who is managing finance of the business is illustrated in Figure 5.9.

**Figure 5.9: Person who manages finance**

Half of the owners of small and micro businesses manage their finances. Other than the owner, the co-owner was indicated by 38% while the manager and the accountant each represents 6%.
5.3.10 Length of time managing finances

The length of time the person is managing finance is shown in Figure 5.10.

Figure 5.10: Length of time in managing finance

![Bar chart showing percentages]

Figure 5.10 indicates that 40% of respondents have been managing the finance since start-up, 35% for a period of less than a year and 25% for more than a year.

5.4 ENTREPRENEURIAL SKILLS

The entrepreneurial skills of the respondents were explored in questions 5.4.1 to 5.4.8.
5.4.1 Skills received

The type skills in which respondents received training are indicated in Table 5.9.

Table 5.9: Type of skills

<table>
<thead>
<tr>
<th>Skill</th>
<th>Number of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>General management</td>
<td>27</td>
<td>45%</td>
</tr>
<tr>
<td>Financial management</td>
<td>7</td>
<td>11%</td>
</tr>
<tr>
<td>Marketing management</td>
<td>7</td>
<td>11%</td>
</tr>
<tr>
<td>Computer skills and sales</td>
<td>20</td>
<td>33%</td>
</tr>
<tr>
<td>Total</td>
<td>61</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 5.9 indicates that many respondents were trained in general management. The respondents received little training in financial and marketing management. This is shown by the 11% each given to financial and marketing skills.

5.4.2 Institutions that provide training

The institutions that gave training to the respondents are indicated in Figure 5.11.

Figure 5.11: Institutions that provide training
According to Figure 5.11 The Enterprise Promotion (TEP) trained the majority of respondents, and this is indicated by 45%.

The second institution that is mentioned by the respondents is Community Enterprise and Business Information (CEBI), which is given 17% as well as South African Breweries at 11%. Community Self Employment Cooperation (COMSEC) and the Nelson Mandela Metropolitan University Small Business Unit (NMMU SBU) only trained six percent each.

Only nine percent of respondents indicated that they were not happy with the training and those that were not happy indicated that although they received training, they did not feel confident in their businesses especially on the issue of finance. All the respondents further indicated that they needed further training in marketing and finance.

5.4.3 Marketing of business before operation

The marketing of business before operating is illustrated in Figure 5.12.

Figure 5.12: Marketing of business before operation
The majority of small and micro tourism businesses were marketed before they started to operate. This is indicated by a 61% response from the respondents. Only 39% of the respondents did not market their businesses. The main reason given by the respondents that did not market their businesses were:

- They did not have money and time, and
- Because they did not see the need to market.

Those respondents, who marketed, indicated that marketing their businesses gave them exposure and thereby increased their customer base.

### 5.4.4 Marketing medium used

The marketing medium currently used by the respondents is illustrated in Table 5.10.

**Table 5.10: Marketing medium currently used**

<table>
<thead>
<tr>
<th>Medium</th>
<th>Number of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newspapers</td>
<td>4</td>
<td>22%</td>
</tr>
<tr>
<td>Pamphlets</td>
<td>7</td>
<td>39%</td>
</tr>
<tr>
<td>Word of mouth</td>
<td>5</td>
<td>28%</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 5.10 shows that the respondents mainly use pamphlets and word of mouth to advertise.
Thirty nine percent of respondents use pamphlets while 28% use word of mouth. The newspapers got a response of 22% from the respondents while the other media got 11%.

5.4.5 Frequency of advertisement

The frequency of advertising is illustrated in Figure 5.13.

Figure 5.13: Frequency of advertisement

![Frequency of advertisement graph]

The results of Figure 5.13 show that the majority of respondents advertise half quarterly, this is indicated by 44% in the graph. Thirty nine percent of the respondents advertise once a quarter. Only 12% of respondents advertise monthly, while five percent of respondents advertise daily.
5.4.6 The most important business skills

The most important business skill is shown in Table 5.11.

Table 5.11: Most important skills in business

<table>
<thead>
<tr>
<th>Skill</th>
<th>Number of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>7</td>
<td>39%</td>
</tr>
<tr>
<td>Finance</td>
<td>6</td>
<td>33%</td>
</tr>
<tr>
<td>Time management</td>
<td>3</td>
<td>17%</td>
</tr>
<tr>
<td>General management</td>
<td>1</td>
<td>5.5%</td>
</tr>
<tr>
<td>Communication</td>
<td>1</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Table 5.11 indicates that marketing and financial management skills are the most important skills to run a business according to respondents. This is indicated by 39% and 33% given to the two skills respectively. Time management skill is rated by 17% of respondents, and the skills, which are considered least important by respondents, are communication and general management skills with five comma five percent given by respondents to each of the skills.
5.4.7 Skills that were lacking during start-up

Skills that were lacking during start-up are shown in Table 5.12.

Table 5.12: Skills that were lacking during start-up

<table>
<thead>
<tr>
<th>Skill</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>11</td>
<td>33%</td>
</tr>
<tr>
<td>Marketing</td>
<td>11</td>
<td>33%</td>
</tr>
<tr>
<td>Negotiation</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>Time management</td>
<td>6</td>
<td>18%</td>
</tr>
<tr>
<td>General management</td>
<td>1</td>
<td>3%</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 5.12 shows that the majority of small and micro tourism businesses were lacking in the finance and marketing skills when they started. Respondents in the study have given 33% for both finance and marketing skills. The respondents had general management and other skills when they started. This is shown in the three percent that they give for these skills. Few respondents had time management and negotiations skills. The 18% and 10% given by respondents for time management and negotiations shows this respectively.

5.4.8 Rating of skills
The rating of the importance of the skills discussed in the previous section is illustrated in Table 5.13.

Table 5.13: The rating of the importance of skills

<table>
<thead>
<tr>
<th>Skills</th>
<th>Number of respondents for each rating</th>
<th>Average</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication</td>
<td>7 3 4 2 2</td>
<td>2,4</td>
<td>Important</td>
</tr>
<tr>
<td>Negotiations</td>
<td>3 3 4 4 4</td>
<td>3,2</td>
<td>Neutral</td>
</tr>
<tr>
<td>Time management</td>
<td>9 4 2 2 1</td>
<td>2</td>
<td>Important</td>
</tr>
<tr>
<td>Conflict resolution</td>
<td>2 3 2 7 4</td>
<td>3,4</td>
<td>Neutral</td>
</tr>
<tr>
<td>Financial management</td>
<td>1 4 2 0 0</td>
<td>1,4</td>
<td>Close to very important</td>
</tr>
<tr>
<td>Marketing</td>
<td>1 1 3 2 1</td>
<td>1,8</td>
<td>Important</td>
</tr>
<tr>
<td>General management</td>
<td>5 3 3 4 3</td>
<td>2,7</td>
<td>Neutral</td>
</tr>
</tbody>
</table>

Table 5.13 indicates that the respondents rate the financial management skill as close to very important, while marketing skills, time management skills and communication skills are rated as important. Respondents are however neutral to negotiation skill, conflict resolution skill and general management skill.

5.5 SUMMARY
The chapter has analysed the results of the study and the next chapter will interpret the results and draw conclusions and make recommendations. In drawing these conclusions, the literature study would also be integrated in relation to the problem statement.
CHAPTER SIX
CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION
Chapter five dealt with the analysis of the results of the study in order to identify the barriers confronting small and micro tourism businesses owned by previously disadvantaged entrepreneurs in the Nelson Mandela Metropole. Chapter six is intended to interpret the results and ascertain if the results that were analysed in chapter five relate to the literature review that was done in chapter two. The chapter will firstly discuss the conclusions and then follow with the recommendations.

6.2 BIOGRAPHICAL DATA
The biographical data in Section A, deals with the location of the small and micro businesses in the Metro, the position of the respondent in the business, the age of the respondent, the level of education, the gender of the respondent, the length of operation of the business and the service offered by the business.

6.2.1 Conclusions
The results of the biographical data in section A indicate that the majority of respondents are middle aged (36-45) and are females with diploma qualifications. The study also shows that the majority of these businesses, employs between one and five people, and has been operating for more than two years.
The results further reveal that there are very few small and micro tourism businesses owned by previously disadvantaged people in tourism in the Nelson Mandela Metropolitan Municipality, and they are mainly in Port Elizabeth. Also those few businesses are mostly found in the art and craft sector of tourism. These art and craft businesses are not the informal traders found on the sidewalks of the streets. These are the more formal businesses.

6.2.2 Recommendations

The government needs to intensify efforts to increase formal small and micro tourism businesses owned by previously disadvantaged entrepreneurs in tourism. In doing so it should focus its efforts more on the accommodation and transport sectors of the tourism industry as these are the areas out of the three investigated, with the least number of participants among the disadvantaged people. Also institutions that deal with youth empowerment should be part of this effort particularly given the low number of young people who own or co-own small and micro businesses in tourism. Lastly, the Nelson Mandela Metropolitan Municipality should make sure that more of these small and micro businesses are established in Despatch and Uitenhage as they are either not existing or are very few.

6.3 INSTITUTIONAL SUPPORT

Institutional support is one of the main pillars of business support. The literature study revealed that institutional support is one of the impediments to the development of small and micro tourism business.
6.3.1 Conclusions

The literature study indicates that most small and micro tourism businesses do no get any support when they are starting their businesses because they are not aware of any programmes that can assist them. There is also no co-ordination between the agencies and institutions that offer support to these small and micro businesses. The results of the study seem to agree with the literature review in indicating that although the majority of small and tourism micro businesses have support currently, they got little support when they were starting up.

The little support they got was mainly in the area of financial management, although that support did not make them confident enough to run their businesses. Also, in line with the literature study, the empirical study indicates that few small and tourism micro businesses have been aware of support given by government agencies; instead colleagues and friends have informed most of them.

6.3.2 Recommendations

Institutions such as the Small Enterprise Development Agency (SEDA) and Nelson Mandela Metropolitan Municipality need to increase the awareness levels of the previously disadvantaged people particularly young people, about the business opportunities in the tourism business and the level of support that is available. This needs to be done by the holding of workshops and seminars particularly in the townships.
The Small Enterprise Development Agency and the unit responsible for small and micro tourism business development in the Nelson Mandela Municipality need to co-ordinate all agencies and institutions that give support to small and micro tourism businesses so as to optimize their effectiveness.

6.4 LEGISLATION

Legislation that governs business in any country has to help business grow so that there could be economic growth. In the literature study legislation is continuously mentioned, as one of the causes of the small number of small and micro businesses in tourism in the Nelson Mandela Metro.

6.4.1 Conclusions

The literature study reveals that there is a long registration period for businesses in South Africa as compared to other countries. There is also cumbersome administrative work that has to be done when registering a business where so many papers have to be filled in. Moreover, the cost of complying with legislation makes it difficult for small and micro tourism business to function and new ones to enter the market. Here reference is made to the labour laws, which makes it costly to dismiss an employee as well as standardized wages in all sectors of the industry regardless of the type of business. The last point raised under compliance is the complicated tax system that causes small and micro tourism business to incur most costs in trying to comply.
The empirical study disagrees with the literature study on the length of registration period because most small and micro businesses are happy with the registration period. The respondents however agree with the literature study on the process of registration, that they have much paper work. Further, the empirical study agrees with the negative role played by some labour and tax laws on the development of small and micro business. In addition to these laws, the empirical study also raised the municipal credit laws that stifle the development of small and micro business at the local level.

**6.4.2 Recommendations**

The Department of Trade and Industry and Nelson Mandela Metropolitan Municipality need to streamline the procedure for the registration of small business by having fewer forms for businesses to complete when registering. With the support given by government departments and other agencies, attention has to be given to tax information for small and micro businesses. This can be done in partnership with the South African Revenue Services.

The Nelson Mandela Metropolitan Municipality has to explore the possibility of establishing a small business forum as a substructure within the Nelson Mandela Bay Economic Forum. This will look specifically at the interest of small business in policy matters involving business.
6.5 LACK OF ACCESS TO FINANCE

In many instances the lack of finance is often mentioned as the primary reason for the lack of development in South Africa. The study will outline the result of this factor.

6.5.1 Conclusions

The literature study reveals that small and micro businesses have a problem acquiring capital to start their businesses, and in dealing with financial institutions. According to the study, this is caused mainly by the fact that the majority of small and micro businesses owned by previously disadvantaged entrepreneurs do not have a good credit record. Furthermore, these entrepreneurs rarely meet the collateral requirements of banks, and also do not have the financial sophistication needed to negotiate transactions.

The empirical study seems to confirm the literature review that most small and micro tourism businesses owned by previously disadvantaged entrepreneurs struggle to get finance particularly during start-up, so that they have to rely on their own resources for funding. The common stumbling blocks for them to access finance from banks are the bad credit profile and the lack of a collateral.

6.5.2 Recommendations

The Small Enterprise Development Agency has to facilitate a continuous and direct interaction between the financial institutions and the small and micro tourism businesses so as to educate these small and micro businesses particularly in the townships, about the lending requirement of banks.
The Nelson Mandela Metropolitan Municipality, the Small Enterprise Development Agency and the Departments of Trade and Industry and Environmental Affairs and Tourism need to work jointly to look at more efforts at funding small and micro business in tourism and particularly look at other non-conventional types of collateral. Research has also to be done by the institutions dealing with small and micro businesses to investigate the success of the funding of small and micro business up to now.

6.6 LACK OF ENTERPRENEURIAL SKILLS

One of the areas that are a big problem in the South African economy according to the literature study is the area of skills. This section will indicate if they are indeed a factor in the development of small and micro business.

6.6.1 Conclusions

In the literature study, small and micro tourism businesses in are said to lack the following skills; planning skills, marketing skills, time management skills, conflict resolution skills, negotiation skills, financial management skills, and general management skills. The literature study further indicates that the lack of these skills among previously disadvantaged entrepreneurs is mainly caused by the lack of training opportunities before the business is established.

The empirical study refutes the view that training amongst previously disadvantaged entrepreneurs does not take place. The empirical study indicates that training does take place either before or immediately after the business has been established.
However, the training that is given to these small and micro tourism businesses does not target all the skills required for one to run a business. Some of the skills which are considered important or very important, for running a business like financial management skills, marketing skills and time management skills are not adequately imparted to these small and micro tourism businesses owned by previously disadvantaged entrepreneurs. This causes their owners to lack confidence in running their businesses.

6.6.2 Recommendations

The Nelson Mandela Metropolitan Municipality needs to have a comprehensive and up-to-date database of all township small and micro tourism businesses and together with other stakeholders, begin more intensive training programmes on all business skills. Priority and emphasis has to be given to critical skills like financial management skill, marketing skill and time management skill.

The small business forum (as proposed in subsection 6.4.2) should initiate a programme of mentoring and formation of linkages between individual new small and micro tourism businesses owned by previously disadvantaged entrepreneurs, and big businesses in the Nelson Mandela Metropole to facilitate learning and sharing of expertise and best practices.
6.7 SUMMARY

The conclusion reached in this study confirms the view that small and micro tourism businesses owned by previously disadvantaged entrepreneurs in the Nelson Mandela Metropolitan Municipality, like most small businesses in other sectors of the economy, are not growing because of problems that relate to the lack of finance, lack of support from institutions and agencies established to assist them. In the small and micro tourism businesses that are currently operating, there is also a lack of critical skills, which will negatively affect their future success.


Baloyi, D. Established players are reluctant to accept new entrants to the market. *he Sunday Times, Business Times*, 20 May, p.6.


ANNEXURE 1

COVERING LETTER

11 November 2005

For Attention: Manager/Owner

Dear Sir or Madam

SURVEY ON THE BARRIERS CONFRONTING SMALL AND MICRO TOURISM ENTERPRISES OF THE PREVIOUSLY DISADVANTAGED ENTREPRENEURS IN THE NELSON MANDELA METROPOLE.

Kindly find attached a questionnaire relating to the above. Your assistance in completing the questionnaire on or before 18 November 2005 would be highly appreciated. All information gathered would be kept confidential and only a summary of the findings would be done. Should you wish to receive a copy of the findings, please indicate so that it can be forwarded to you in due course. The questionnaire would be collected on the 18 November 2005. Your co-operation would be greatly appreciated.

Yours faithfully

Mzwake Clay
MBA student – Nelson Mandela Metropolitan University

Tel: (041) 4647376-w, 0726998209 cell
ANNEXURE 2
QUESTIONNAIRE

SECTION A – BIOGRAPHICAL DATA

INSTRUCTIONS: Tick the appropriate block with an (x)

1. Where is your business situated?
   Port Elizabeth
   Despatch
   Uitenhage

2. What is your position in the business?
   Owner
   Co-owner
   Manager

3. What is your age?
   18 – 25
   26 – 35
   36 – 45
   46 – 55
   Above 55

4. What is your level of education?
   Grade 8
   Grade 10
   Grade 12
   Certificate
   Diploma
   Degree

5. What is your gender? Male female
6. How many employees does your company employ?

1 - 5
6 - 10
11 - 15
More than 15

7. For how long has your business been in operation?

Less than 1 year
1 – 2 years
More than 2 years

8. What service is your business offering?

Accommodation
Art and craft
Transport
SECTION B

INSTRUCTION FOR THE COMPLETION OF SECTION B OF THE QUESTIONNAIRE

Please complete the questionnaire by ticking the appropriate block provided. Also substantiate where you are asked to do so.

1. From which of the following institutions do you receive business support?
   
   COMSEC                      
   NM Bay Tourism             
   Business Partners          
   DTI                        
   NMMU Small Business Unit   
   None                       
   Other (specify)..............

2. Did you receive any assistance from any institution or person during start-up?

   Yes
   No

a) If yes, in which business area(s) did this/these institution(s) give support?

   Business plan
   Financial management
   Marketing
   Other (describe) ......................

b) If no, why not?.............................

(If the answer to the above question above is NO then go to question 5)
3. Were you happy with the support you got from this institution?
   Yes
   No

Motivate your answer..............................................

4. How did you become aware of this institution?
   Business colleagues
   Media
   Friends
   Other (specify).............................................

5. How long did it take to register your business?
   Less than 3 months
   3 – 6 months
   More than 6 months

6. Were you satisfied with the registration process?
   Yes
   No

If no, motivate..............................................
........................................................................

7. Are you happy with the law governing tourism business in South Africa?
   Yes
   No

If no, motivate...........................................
........................................................................
8. Where did you get funds to start your business? (You may tick more than one option)

Bank loan
Own savings
Business Partners
Friends
Family

9. Was it easy to obtain funds for your business?

Yes
No

a) If no, motivate........................................
.................................

b) If no, which requirements prevented you from qualifying to obtain funds from finance institutions?

Good credit profile
Collateral
Business Plan
Assets
Other (specify)..........................

10. Do you think other small businesses are struggling to access finance?

Yes
No

Motivate........................................
.................................

.................................
11. Who manages the finances of your business?

- Yourself
- Co-owner
- Manager
- Accountant

12. If you are using another person to manage your finances, are you happy with the way your finances are managed?

- Yes
- No

13. If you are not managing your finances, for how long has the person referred to above, been managing your business finances?

- Since start-up
- Less than a year
- More than a year

14. Did you receive any training before starting the business?

- Yes
- No

a) If yes, in which area(s) did you get training?

- General management
- Financial management
- Marketing
- Other (specify) …………..

b) If yes, which institution gave you the training?

- COMSEC
- Business Partners
- NM University SBU
- Other (specify) ……………….
15. Are you happy with the training you received?

Yes
No

If not, why not? ...........................................
......................................................

16. Do you feel you need further training?

Yes
No

If yes, in which areas? .................................
......................................................

17. Have marketed you business before you started to operate?

Yes
No

a) If not, why not? ...........................................
......................................................

b) If yes, do you think it has helped you business to acquire customers?

Yes
No

Motivate ..................................................
......................................................
......................................................
18. Which marketing medium do you currently use to market your business?

- Newspapers
- Pamphlets
- Radio
- Word-of-mouth
- None
- Other (specify)…………………….

19. If you advertise your service, how often do you advertise?

- Daily
- Weekly
- Monthly
- Half quarterly
- Quarterly
- Annually

20. Which of the following skills do you regard as important for a business in the tourism sector? (You may indicate more than one option).

- Communication
- Negotiation
- Conflict management
- Financial management
- General management
- Marketing management
- Other (specify)………………………...
21. Which of the following skills were you lacking when you were starting your tourism business? (You may indicate more than one option)

- Communication
- Negotiation
- Time management
- Conflict management
- Financial management
- Marketing management
- General management
- Other (specify)…………………………

22. How do you rate the following skills in terms of importance with a rating scale of 1 as very important to 5 as unimportant?

<table>
<thead>
<tr>
<th>Skill</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
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<tr>
<td>Communication</td>
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<tr>
<td>Negotiations</td>
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<tr>
<td>Time management</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conflict resolution</td>
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</tr>
<tr>
<td>Financial management</td>
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<td></td>
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<tr>
<td>General management</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Other (specify)…………………</td>
<td></td>
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</tbody>
</table>