

RISK FACTORS FOR FAILURE IN NEWLY ESTABLISHED SMALL, MICRO AND MEDIUM-SIZED ENTERPRISES IN THE TOURISM SECTOR OF GAUTENG PROVINCE, SOUTH AFRICA

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Abstract

The annual report issued for the financial year 2013/2014 by the South African Chamber of Commerce and Industry (2015) shows that the business confidence index of South Africa was equal to 89.3% in January 2015. According to the South African National Department of Tourism (2015), the tourism sector contributed 93 Billion Rand (3%) to the South African GDP in the year 2012. The contribution of the tourism sector was equal to 189.4 Billion Rand in the year 2009. This figure is projected to grow to 499 Billion Rand by the year 2020. According to the South African Small Enterprise Development Agency (2015), newly established and emerging business enterprises conducting business in the tourism sector of Gauteng Province are less viable and efficient in comparison with well-established tourism enterprises.

The objective of this study was to identify and quantify risk factors for underperformance and bankruptcy in the tourism sector of Gauteng Province in South Africa. The study was based on data collected from a stratified random sample of size 311 tourism enterprises that operate in Gauteng Province, South Africa. Data was collected on a large number of socio-economic factors that adversely affect entrepreneurial activities in the tourism sector of Gauteng Province. A combination of quantitative and qualitative methods of data collection and analyses was used in the study. Examples of variables on which data was gathered was level of entrepreneurial skills, level of formal education, location of business, duration of experience, amount of capital, number of employees, ability to network with other tourist operators, degree of competition from rival operators, geographical location, category of business, category of entrepreneurial skills, average number of visitors per month, net profit, size of business, market share, access to finance, and degree of support from Government agencies. Results obtained from the study showed that the long-term survival and viability of African entrepreneurs in the tourism industry of Gauteng Province was significantly and adversely affected by the degree of competition from rival operators, poor networking ability, lack of entrepreneurial skills, low capital, and geographical location. The study found that African entrepreneurs in the tourism industry of Gauteng Province lagged behind their white counterparts significantly in terms of networking ability, capital and entrepreneurial skills. In addition, 82% of the 311 African entrepreneurs who participated in the study lacked suitable skills due to their poor and irrelevant academic and vocational background, and that 59% of entrepreneurs had received little or no assistance in terms of mentoring or training opportunities from South African Government agencies.

Keywords: Small Businesses, Entrepreneurial Skills, Tourism, Gauteng Province, Factor Analysis

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1 Introduction and Background

Studies conducted by Herrington & Kelley (2012) and Rogerson (2005, 2008a, 2008b, 2012) have shown that the development of emerging small, micro and medium sized enterprises (SMMEs) in South Africa in the tourism sector is hampered by obstacles such as lack of entrepreneurial skills, lack of capital, poor networking skills, inability to utilize resources

efficiently, and inadequate monitoring and evaluation support from the South African National Government. Based on the annual report issued for the financial year 2013/2014 by the South African Chamber of Commerce and Industry (2015), the business confidence index of South Africa was equal to 89.3% in the month of January 2015. The business confidence index varies from month to month, depending on a number of socioeconomic,

demographic and political factors. Since April 1994, the degree of contribution of the South African tourism sector to GDP has gradually increased. According to the South African National Department of Tourism (2015), the tourism sector contributed 93 Billion Rand (3%) to the South African GDP in the year 2012. The contribution of the tourism sector was equal to 189.4 Billion Rand in the year 2009. This figure is projected to grow to 499 Billion Rand by the year 2020. According to the South African Small Enterprise Development Agency (2015), newly established and emerging business enterprises conducting business in the tourism sector of Gauteng Province are less viable and efficient in comparison with well-established tourism enterprises.

Following the political transformation of April 1994, the tourism sector of the South African economy has been growing steadily. The period since April 1994 has been characterized by a large number of small, micro and medium-sized enterprises (SMMEs) in the South African economy. According to the South African National Department of Trade and Industry (2015), newly established and emerging tourism enterprises in most parts of South Africa have been adversely affected by various developmental challenges and obstacles. According to the Sector Education and Training Authority (2015), newly established tourism operators lack entrepreneurial skills, capital and business networks that are beneficial for efficient operation and adequate performance. The study analyses the socio-economic factors that adversely affect entrepreneurial activities that are conducted by emerging or newly established SMMEs in the tourism sector of Gauteng Province. The study focuses on black indigenous entrepreneurs from previously marginalized backgrounds in South Africa. It analyses the magnitude of black entrepreneurs' involvement in tourism; the actual contribution from African entrepreneurs, the challenges faced as well as the socio-economic impact in the Gauteng Province.

The study conducted by Smedlund (2008) has found that knowledge based transformation is essential to address skills-related obstacles in newly established enterprises in almost all Sub-Saharan African countries including South Africa. Tourism is regarded as one of the key drivers of economic expansion and employment creation in South Africa. Studies conducted on the active participation of the black population agree that in most countries, economic policy makes provision for the attainment of a high level of entrepreneurial activity and a dynamic sector of small business. It is believed that entrepreneurship is usually associated with some far-reaching expectations relating to economic and social well-being (Preisendorfer, Bitz & Bezuidenhout, 2012). The ownership of tourism enterprises has been, and still is, dominated by a majority of white entrepreneurs. With regards to access to market, capital, marketing and networking skills, emerging

black entrepreneurs lag behind. Although the political transformation has provided an opportunity to change the racially defined industry in a way that would allow the previously disadvantaged to participate in it, very little has changed. Post-apartheid planning and legislation envisaged that political transformation would coincide with economic transformation. In this way it was hoped that black people would participate fully in the tourism industry both as tourists in their own country and as entrepreneurs (South African Government Communication and Information System, 1996).

Although the tourism sector is a key contributor to GDP, emerging entrepreneurs in the sector are known to lack entrepreneurial skills, business capital, access to finance, and networking skills. Studies conducted by Akama (2002) and Urban & Naidoo (2012) have shown that emerging tourism operators in Gauteng Province are characterized by poor networking skills and inability to compete with well-established tourism operators. According to the authors, the tourism industry in Gauteng Province is fragmented along racial lines, and that emerging entrepreneurs operating in Gauteng Province need assistance in terms of skills development, access to finance, mentoring, and networking as a means of competing effectively with well-established tourism operators in South Africa. Similar findings have been reported by Worku (2013) and Herrington & Kelley (2012).

2 Literature Review

The review of literature on tourism, entrepreneurship and small business on both the international scenes and in South Africa is vast. Several scholars discuss tourism, its impact, benefits to the economy, the constraints facing tourism entrepreneurs (Nieman, Visser & Van Wyk, 2008; Daskalopoulou & Liargovas, 2008). Studies conducted by researchers such as Mahadea (2012); Rogerson (2008a, 2008b); Chao et al., (2010) and Habiby and Coyle (2010) have clarified the prospects of entrepreneurship in the tourism sector. The authors have identified and quantified factors that affect the viability of informal microenterprises in the tourism sector of the economy. Entrepreneurship activities in tourism in transitional economies like South Africa are often exposed to numerous challenges and obstacles which are related to economic policy, capacity, skills and access to market. In South Africa, there is unequal distribution of wealth between white and black entrepreneurs, and this fact affects the ability of an emerging entrepreneur to succeed in tourism. The South African economy is exposed to challenges such as a high rate of unemployment among the youth, lack of entrepreneurial and technical skills that are required for operating profitable businesses, lack of access to finance, and massive poverty among the masses.

Studies conducted by Kovacevic (2007) and Boysens (2011) have shown that affirmative action does not necessarily empower newly established SMMEs in South Africa, and that it is necessary to utilize monitoring and evaluation techniques for ensuring viability in emerging enterprises in South Africa. Wong, Ho and Autio (2005) have shown that small enterprises have a greater impact on economic performance in highly developed economies where high levels of education, low inflation rates and high level of financial intermediary development are evident. The economic output performance of small medium sized enterprises might not be significant in some economies but there are positive contributions in terms of innovation, facilitating change and enhancing competition. According to Munshi (2009), the SMME sector contributes an estimated 50% to GDP in South Africa and employs 60% of the South African labour force. Mbonyane (2006) has reported that the SMME sector is vital for ensuring overall economic growth in South African rural townships. It can rightly be argued that small tourism enterprises have the ability to spur economic growth. The multiplier effect of tourism contributes to the growth of other sectors like construction, handicraft and agriculture. This suggests that tourism is not a self-contained industry, but rather it relates with other sectors like agriculture, mining, transport and others in order to satisfy the consumer. The ever expanding economy of South Africa has realized an increasing number of emerging tourism enterprises. A small percentage of people aged between 18 and 64 years are actively involved in starting or managing a business wholly or partly which is low in comparison with other countries in the same GDP income group like Malaysia, Uruguay, Turkey, and Argentina among others. Black and coloured according to Mason & Cheyne (2010).

According to Rogerson (2012), tourism offers a potential to galvanize local agricultural development through backward linkages that allow local farmers to supply the food needs of tourism establishments. Linkages between agriculture and tourism are central to promoting symbiosis rather than conflict between the two sectors. Furthermore, the benefits of a closer relationship include decreased linkages through imports, improvement in tourism industry food supplies, and increased tourist access to local food and improved sustainability for tourism, not least through alleviation of poverty.

Tourism has been identified as a sector that can play a vital role in small firm's development in South Africa considering that the majority of tourism ventures are small businesses. Mahadea (2012) postulates that in order for South Africa to make a dent on unemployment, it would need an investment of 39% as a proportion of GDP to reach the 7% growth target and reduce greatly unemployment. The South African travel and tourism industry is highly concentrated and dominated by a small elite group of

large, mostly locally owned tourism organizations (George, 2008). The large companies are economically dominant in the South African tourism industry. However, it is apparent that the vast majority of South African tourism enterprises (as in most countries) are classified as SMMEs. A study conducted in Australia and the UK, revealed that between 95% and 99% respectively of all tourism businesses were found to be small enterprises which included guest houses, bed and breakfast establishments, travel agents and ground operators amongst others (Herrington & Kelley, 2012; Kamsma & Bras, 2000).

The benefits of developing tourism SMMEs are wide ranging even in the context of a developing country such as South Africa. Rogerson (2012) has pointed out that the economic objectives of increased earnings, foreign exchange, investment, job opportunities, as well as the minimization of diverse social and cultural effects, might best be accomplished through the promotion of small tourism businesses rather than large tourism businesses. This is because the tourism sector is expected to become one of the key drivers of economic expansion, local development and job opportunities in developing countries (George, 2008). Despite such claims and the importance of SMME development in the modern South African economy, it remains that limited research has been undertaken on the business orientations influencing the performance of small tourism enterprises.

In South Africa, the principle of Black Economic Empowerment (BEE) has been used as a means of empowering emerging black South African entrepreneurs to establish themselves as viable business enterprises. Although a lot of effort has been made in this regard by the South African Government since April 1994, the policy has achieved little. This is because the key obstacles to sustained growth have been the acute shortage of entrepreneurial skills and capital. Newly established tourism operators in South Africa have failed to compete with well-established tourism businesses mostly due to these factors. Grobler (2005) and Habiby & Coyle (2010) have shown that the acquisition of entrepreneurial and vocational skills is dependent upon the ability to acquire formal education. According to Brand South Africa (2007), the South African Government is committed to transform the currently skewed economic landscape of South Africa by attracting foreign direct investment. This goal can only be achieved by growing the local tourist industry. The study conducted by Carlino (2001) has shown that knowledge based transformation is more beneficial than BEE strategies in developing economies. Chao, Szrek, Pereira and Pauly (2010) have also reported a similar finding.

Glaeser, Kallal, Scheinkman and Shleifer (1992) have shown that the overall economic growth and development of nations depends upon the degree

to which SMMEs develop and grow on a sustainable basis. According to Fauconnier and Mathur-Helm (2008), BEE should not be relied upon a means of addressing historical economic inequalities in South Africa. The authors point out that BEE could easily be abused based on factors such as political favouritism, personal bias, and socioeconomic and demographic characteristics of individual applicants for BEE preferential treatments. Mason and Cheyne (2010) have shown that networking skills are critically important in the tourism sector of the economy. The authors argue that emerging entrepreneurs in the tourism sector must need knowledge-based assistance and mentoring from well-established SMMEs. The South African Government promotes tourism in all parts of South Africa by using local entrepreneurs, and is committed to provide assistance to emerging entrepreneurs by using the Small Enterprises Development Agency (SEDA). However, the degree of success achieved by emerging tourism entrepreneurs has so far been limited (South African Government Communication and Information System, 1996).

The key mandate of the Small Enterprises Development Agency (SEDA) is to enable emerging and newly established South African SMMEs to compete adequately with well-established SMMEs in all sectors of the economy including tourism. The rationale for establishing SEDA was based on the need to alleviate unemployment and abject poverty among the unemployed youth in South Africa. According to Bogopane (2013), the unemployment rate among the youth varies between 35% and 40%. It is a key objective of the South African Government to improve the current level of entrepreneurial, vocational and artisan skills of Black South Africans so that they can compete adequately with well-established businesses (South African Government Communication and Information System, 2007). The strategic plan developed by the South African National Department of Trade and Industry (2015) includes a focus on broadening participation, equity and access to redress for all economic citizens, particularly those previously marginalized (the South African National Department of Trade and Industry, 2013). Black Economic Empowerment (BEE) policies were set out in order to provide preferential economic treatment to under-developed communities (the South African National Department of Trade and Industry, 2013). Although BEE policies have been attempted since April 1994 in various forms, their degree of success has been quite limited according to reports issued by researchers such as Herrington & Kelley (2012), Urban & Naidoo (2012), Rogerson (2012),

Fauconnier & Mathur-Helm (2008), Hamann, Khagram & Rohan (2008), Booyens (2011), Mbonyane (2006), Mbeki (2009), Fauconnier & Mathur-Helm (2008), Vermeulen & Coetze (2006) and Preisendorfer, Bitz & Bezuidenhout (2012).

A report issued by the South African Sector Education and Training Authority (SETA, 2015) shows that almost all attempts made at ensuring economic transformation in the South African economy have failed due to shortage of capital as well as entrepreneurial, vocational and artisan skills. According to Herrington and Kelley (2012) and Worku (2013), intervention programmes must be implemented by the South African National Department of Trade and Industry in order to equip newly established SMMEs with the skills and capital they require to perform and compete adequately with well-established enterprises. The study by Vermeulen and Coetze (2006) has shown that SMMEs that have benefited from affirmative action in almost all sectors of the South African economy have failed to compete adequately with well-established businesses due to failure to utilize scarce resources that are needed for development. Mbeki (2009) has argued that BEE principles do not necessarily guarantee sustained growth and development in South African SMMEs, and that the South African Government needs to encourage competition based on merits and free market forces. Hamann, Khagram and Rohan (2008) have reported that BEE principles have failed to achieve their intended objectives, and that they should be discarded in favour of open competition. Kovacevic (2007) has also suggested the same.

According to Booyens (2011), lack of marketing skills affects emerging tourism operators in South Africa and other developing countries. The author recommends that education and skills based training on entrepreneurial and marketing skills should be provided to new entrants into the tourism sector. New entrants are often exposed to lack of finance, and that this constraint is a key obstacle to growth. The entrepreneurial quality of the SMME owner is a critical factor affecting the ability of SMMEs to survive and achieve sustainable growth. A combination of formal and on-the-job training may be seen as one of the key factors that lays the foundation for success. Education is thought to increase the intrinsic motivation and to energize behaviours. The study conducted by Aloulou & Fayolle (2005) has shown that the quality and relevance of education entrepreneurs have, has a significant effect on their chances of survival and growth. The literature suggests that entrepreneurs need to be educated in order to develop their entrepreneurial abilities and contribute to the survival of their businesses. Benjamin, Anderas & Ramon (2010) have shown that formal education and entrepreneurial skills are associated with each other.

Tourism operators that operate in South African townships have limited capacity in terms of networking and attracting tourists from foreign countries. Networking ability is crucial for tourism operators to establish a sustainable market base. According to Herrington and Kelley (2012), the entrepreneurial environment in South Africa lags

behind the environment in developed nations in Europe and North America. The Sub-Saharan African Regional Report apportions a mean score of 2.89 to access to physical infrastructure and services. It is evident that the negative assessments are a result of lack of strategic support for the tourism sector by the South African Government. The key area of need is the provision of primary and secondary level education on entrepreneurial activities. The results presented to the entrepreneurial framework conditions (EFCs) show that the overall entrepreneurial climate in South Africa is unfavourable for entrepreneurship development.

The 1923 classic theory proposed by Marshall, Arrow and Romer (Marshall, 1923) has shown that knowledge spillovers in specialized, geographically concentrated industries stimulate growth. Since 1923, the MAR theory has been shown to be correct by Arrow (1962), Arrow (1962), Romer (1986), Porter (1990), Glaeser, Kallal, Scheinkman & Shleifer (1992) and Carlino (2001). The study by Porter (1990) has found that knowledge spillovers in specialized, geographically concentrated industries stimulate growth, and that local competition fosters sustained growth and innovation. The MAR theory (Marshall, 1923) is applicable to emerging SMMEs currently operating in the tourism sector of the South African economy.

3 Methods and Materials of Study

The aim of the study was to identify and quantify known risk factors of underperformance and bankruptcy in newly established SMMEs conducting business in the tourism sector of Gauteng Province in South Africa. The design of the study was descriptive and cross-sectional. A combination of quantitative and qualitative methods of data collection and analyses was used in the study. Data collection was conducted by using a pre-tested and validated questionnaire of study (Polit & Beck, 2004). The variables of study used in the study were identified by conducting a thorough review of the literature on factors that are known to affect entrepreneurial activities in newly established and emerging SMMEs in South Africa.

A representative, stratified random sample (Gravetter & Forzano, 2009) of size 311 SMMEs was drawn for the study from the various geographical zones of Gauteng Province. Geographical zones (central, east, west, north and south) were used for

stratification. The questionnaire of study consisted of variables that are known to affect sustained growth, viability and long-term survival in newly established and emerging SMMEs in the tourism sector of Gauteng Province. Quantitative data was collected by using a structured questionnaire of study that consisted of questions related to capital, geographical location, revenue, expenditure, ownership of premises, details of clientele, years of operation, level of entrepreneurial skills, amount of initial capital, amount of current capital, ability to draw up a business plan, ability to conduct audit, networking ability, degree of support provided to business from the South African Government, training opportunity, ability to borrow loan from commercial banks, duration of operation in the tourism industry, and various challenges faced by operators. As part of the qualitative aspect of study, in-depth interviews were conducted with five respondents of study. In-depth interviews were tape recorded, and transcribed later (Gravetter & Forzano, 2009). The validity of the questionnaire of study was ascertained by conducting pre-testing and face validity (Dawson & Trapp, 2004).

Data entry and analyses were performed in the statistical package STATA version 14 (STATA Corporation, 2014).

4 Results of Data Analyses

The results of the study were obtained from frequency tables, cross tabulations, factor analysis and in-depth interviews.

4.1 Results obtained from cross-tab analyses

Data analysis was performed by using Pearson's chi-square tests of associations in order to identify factors that were significantly associated with viability (Dawson & Trapp, 2004). The results showed that viability was significantly associated with 8 factors at the 1% level of significance. At the 1% level of significance, significant two-way associations are characterized by large observed chi-square values and P-values that are smaller than 0.01. It can be seen from Table 1 that all 8 factors shown are significantly associated with viability at the 1% level of significance. At the 1% of significance, significant two-way associations are characterized by large chi-square values and P-values that are smaller than 0.01.

Table 1. Results obtained from cross-tab analyses

Factors significantly associated with viability	Observed chi-square value	P-value
Intense competition from rival businesses	89.35	0.0000
Poor networking ability	78.36	0.0000
Lack of entrepreneurial skills	74.55	0.0000
Low capital	69.03	0.0000
Difficulty in securing finance needed for operation	59.66	0.0000
Geographical location	52.97	0.0000
Lack of support from Government	50.08	0.0000
Age of respondent	49.23	0.0000

4.2 Results obtained from log-linear analysis

Data analysis was performed by using log-linear analysis (Agresti, 2013:39) in order to identify key predictor variables that were significantly associated with each other. Log-linear models are hierarchical in

nature. In general, there could be an interaction of order k. At k successive steps, interactions of order k (the highest order), k-1, k-2... 3, 2 and 1 (the main effects) are tested for significance step by step. The most useful order is k=2.

Table 2. Estimates obtained from log-linear analysis

Interactions of order k=2	P-value
Intense competition from rival operators and viability	0.0000
Lack of entrepreneurial skills and poor networking ability	0.0000
Geographical location and low capital	0.0000

4.3 Results obtained from factor analysis

Factor analysis is a data reduction technique used to reduce a large number of variables to a smaller set of underlying factors that summarize the essential information contained in the variables (Field, 2010). The following procedures were followed while performing factor analysis: Computation of the correlation matrix for all variables, extraction of initial factors and rotation of the extracted factors as a terminal solution.

Factor analysis was used for reducing the number of factors that had to be analyzed. The method produced 5 influential predictor variables that influenced viability in tourism businesses operated by black entrepreneurs in the Gauteng Province. Factor analysis is useful in cases where the correlation among the variables of study is significant. The correlation matrix in this study showed that several pairs of variables had correlations exceeding 0.3, thereby showing that factor analysis was appropriate.

In this study, a cutoff point of 0.3 was used as is recommended by Field (2010:138). The variables found to be highly significant with viability were as follows:

1. High level of competition from rival tourism operators
2. Poor networking ability
3. Lack of entrepreneurial skills
4. Low capital
5. Geographical location

The Cronbach Alpha test for internal consistency was used for testing the suitability of the 25-item structured questionnaire of study. The test gave a value of 0.835 and an associated level of significance that was smaller than 0.001. Furthermore, Bartlett's test of Sphericity was used for testing the adequacy of the correlation matrix, and gave an estimate of 0.806, a figure that was greater than the cut-off point of 0.5, thereby confirming the suitability of factor analysis.

Table 3. Estimates obtained from the Kaiser-Meyer-Olkin KMO) and Bartlett's test

Diagnostic measure based on KMO test	Estimated value
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.806
Observed value of chi-square statistic for KMO test	1219.33
Bartlett's Test of sphericity degrees of freedom	309
P-value for Bartlett's Test of sphericity degrees of freedom	0.000

Table 3 shows estimates obtained from Kaiser-Meyer-Olkin (KMO) and Bartlett's tests based on factor analysis. The KMO estimate shown in the table is 0.806, a figure that is above 0.75. This indicates that the use of factor analysis is appropriate.

Table 4 shows Eigen values estimated from factor analysis. The table also shows the percentage of total variance accounted for by each factor, and the cumulative percentage of total variance accounted for by the factors.

Table 4. Total variance explained by the extraction of 5 factors

Extracted factor	Eigen value	Percentage of explained variance	Cumulative percentage of explained variance
Intense competition	5.964	28.294	28.294
Poor networking ability	4.121	17.234	45.528
Lack of entrepreneurial skills	3.534	16.132	61.660
Low capital	3.468	14.035	75.695
Geographical location	2.353	3.768	79.463

The results shown in Table 4 provide estimates for the percentage of variance explained by the 5 factors that were extracted by using the principal axis factoring method. Each of the 5 extracted factors has an Eigen value of magnitude greater than 1, thereby indicating its level of importance in terms of accounting for viability in business. The 5 extracted factors collectively account for 79.46% of the total variability in viability (the dependent variable of study). Based on the estimates shown in Table 4 above, it can be concluded that viability in tourism companies operated by black entrepreneurs in Gauteng Province is significantly and adversely affected by the following 5 factors:

1. High level of competition from rival tourism operators
2. Poor networking ability
3. Lack of entrepreneurial skills
4. Low capital
5. Geographical location

The 5 factors listed above accounted for 79.46% of total variability. This figure is above 75%.

4.4 Results obtained from the in-depth interviews

In-depth interviews conducted with respondents showed that the key obstacles to sustained viability and satisfactory performance are lack of entrepreneurial skills, shortage of capital, lack of networking capacity, and inability to penetrate markets that have been historically controlled by well-established tourism operators. Two key respondents cited the reluctance of commercial banks to extend loan to newly established SMMEs without demanding collateral. The interviews showed that well-established operators had connections and networks both locally and abroad, and that they used aggressive marketing strategies.

The interviews showed that Local Tourism Organization (LTO) sessions were poorly attended by emerging entrepreneurs, and that the majority of

emerging entrepreneurs were reluctant to have their businesses registered with the South African National Department of Trade and Industry. Skills in drawing up business plans, generating audit reports, making oral presentations to the general public, and attending public events with a view to advertise business efforts were grossly inadequate. The interviews showed that the degree of awareness about programmes of support provided by the South African National Department of Trade and Industry and SEDA were generally low. Knowledge of government regulation and legislation among emerging entrepreneurs was generally low.

5 Discussion of Results

The key finding of the study is that emerging SMMEs in the tourism sector of Gauteng Province lack the capacity for competing adequately with well-established SMMEs due to lack of entrepreneurial skills, lack of capital, failure to raise finance from money lending institutions such as commercial banks, poor networking skills and capacity, and failure to utilize government support programmes that are designed for promoting newly established and emerging SMMEs in the tourism sector. According to Nieman, Visser and Van Wyk (2008), access to finance is an important requirement for sustained growth and viability in newly established SMMEs. Herrington and Kelley (2012) have pointed out that entrepreneurial skills are essential for sustained growth and development in newly established SMMEs. Potential entrepreneurs must be familiar with the business needs and requirements of their chosen area of business if they are to compete with well-established businesses. Findings of the study are consistent with what has been proposed by the MAR model. Competition among local SMMEs leads to improved performance and sustained growth in the local tourism industry.

Emerging entrepreneurs lack networking skills and capacity. As a result, they lose business opportunities to well-connected businesses. Most newly established and emerging entrepreneurs were

not known to big local and international operators, and lacked marketing strategies for marketing their services to local and international tourists. The study showed that LTO meetings were poorly attended by emerging operators. Acquisition of technology transfer by emerging businesses was quite low. Social networking platforms such as Facebook and Twitter were poorly utilized for marketing purposes. Some of the well-established enterprises routinely networked with operators in cities such as London, Paris, Amsterdam, Berlin, New York, Sydney, Tokyo, Sao Paulo, Rio de Janeiro and Beijing as a means of attracting potential visitors and skilled expatriates. The degree of understanding of the potential benefits of networking among well-established businesses was generally high. The degree of understanding of support programmes such as the ones offered by SEDA was also high among well-established businesses. Well-established businesses generally had satisfactory understanding about tourism and hospitality.

Entrepreneurial capacity enables entrepreneurs to exploit available opportunities. The study by Herrington and Kelley (2012) has shown that economic forces can influence market opportunities and ultimately result in prosperity. The authors argue that a successful entrepreneur is an individual who is willing to take calculated risk in order to explore the market demand for services and products that could be offered. In this regard, potential black entrepreneurs must possess adequate entrepreneurial skills and knowledge in order to be able to assess market conditions and to utilize resources effectively.

Difficulty in securing finance was cited as a key obstacle by newly established businesses. The majority of local black entrepreneurs struggled to secure finance for their businesses from commercial banks. Based on a study conducted in Gauteng and Mpumalanga Provinces, Nieman, Visser and Van Wyk (2008) have pointed out that newly established SMMEs in the tourism sector need access to finance from formal money lending institutions such as commercial banks. However, the authors have pointed out that formal money lending institutions often require collateral as a requirement for loans, and that newly established businesses lack collateral. According to the authors, the private sector is reluctant to invest in tourism development, especially in South African townships. According to Grobler (2005), such reluctance could be attributed to uncertainties associated with land ownership, poor infrastructural development, poor municipal services, heavy bureaucracy, and the limited capacity of the tourism market in South African townships. Financial institutions regard tourism as a high-risk business. The reluctance of the private sector to invest in tourism is particularly obvious in the rural areas as these are perceived as being out of the way (George, 2008). Unlike private investors, the public sector however, can make no such excuses as it has a

mandate and an obligation to social development. Small-scale tourism development is preferable to consortium-driven grand tourism development because of the negligible disruption to the environment. It also empowers local communities directly. This creates a sustainable tourist product as locals are often best placed to meet the demand for the tourist's search for idyllic places. On the contrary, big commercial investors often lack compassion for local communities and an affinity for tourists which they make up for by investing heavily in luxurious and comfortable star-rated hotels which then overcharge guests. The rich investors in tourism development get richer and the poor local communities get poorer.

Although the involvement of the private sector in a tourism development project assures all stakeholders of quality and acceptable standards, particularly in situations where there is massive private sector investment, there are questionable standards for responsible tourism, especially with regard to meaningful participation and benefit for the local communities. As a result, it may be said that tourism should be seen as a local resource and that the desires of local communities should be the principal criterion for local tourism development (Kamsma & Bras, 2000). One of the factors cited by the White Paper on the Development and Promotion of Tourism in South Africa as inhibiting the meaningful involvement of previously disadvantaged communities in the tourism industry is a lack of incentives to reward private enterprises that develop local capacity and create job opportunities in these communities (South African Government Communication and Information System, 1996).

The creation of world standard tourist destinations in rural geographical locations of Gauteng Province requires massive financial capital and technical expertise. This task could be easily achieved by encouraging and providing tangible economic incentives to the private sector. Ultimately, local black entrepreneurs would need a lot of financial and business support to provide the expected tourism products that are befitting for world standards. Popular tourist destinations in townships and rural areas should consider working with emerging entrepreneurs as a means of enabling them to establish business networks. This exercise could also help for enabling emerging SMMEs to meet the business needs and requirements of local and international tourists.

The ability to market goods and services effectively is essential for emerging SMMEs in the tourism sector. The need for entrepreneurial and vocational skills is critical in emerging SMMEs. The study conducted by Herrington and Kelley (2012) shows that the current policy on skills must be tailor-made to the business needs and requirements of emerging SMMEs. The authors have suggested that general support programmes must be rolled out

aggressively and with enough resources in order to build capacity in emerging entrepreneurs.

The White Paper on the Development and Promotion of Tourism in South Africa (South African Government Communication and Information System, 1996) states that the role of the South African Government in the development of tourism is that of facilitation and coordination. The Government needs to play a more active role by creating an economically enabling environment for local and international tourism operators. In this regard, the private sector needs to be supported in order to foster competition and skills transfer to emerging entrepreneurs. The South African Government has provided a legislative framework for ensuring sustained growth and development in the tourism industry (South African Government Communication and Information System, 2007).

The study has shown that monitoring and evaluation programmes could be beneficial for newly established SMMEs in the tourism sector of Gauteng Province. The degree of awareness about financial support programmes among emerging entrepreneurs was relatively low. A case in point is failure to understand the requirements for financial assistance from SEDA, the Industrial Development Corporation (IDC), the International Tourism Marketing Aid Scheme (ITMAS) and the Development Bank of Southern Africa (DBSA). The South African National Department of Tourism (2015) has produced a guideline to be followed by entrepreneurs who wish to invest in the local tourism industry. The guideline shows that new applicants could benefit from the Small Enterprises Development Agency with regards to finance and technical advice. The South African Chamber of Commerce and Industry (2015) also provides similar assistance to newly established and aspiring entrepreneurs who wish to invest in the local tourism industry.

Conclusion

The study has found that emerging SMMEs in the tourism sector of Gauteng Province lack the capacity and resources for competing efficiently with well-established tourism operators. The key obstacles are lack of entrepreneurial skills, lack of capital, lack of access to finance, poor networking ability, and failure to utilize support programmes launched by the South African Government effectively. The study has also shown that emerging SMMEs are relatively less financially viable in comparison with well-established tourism operators. Local black entrepreneurs do not have the financial ability to attract local and international tourists in large numbers. In order to succeed, local black entrepreneurs in the tourism sector of Gauteng Province should be provided with financial and technical support by the South African Government. The study has shown that the assertions of the MAR

model are valid, and that emerging tourism operators deserve to be supported by the South African Government as a means of ensuring sustained growth and development in the local tourism sector. The study has also shown that BEE based policies have failed to ensure sustained growth and development in the tourism sector of Gauteng Province. The study has shown that emerging entrepreneurs lack the skills for developing business plans, conducting audits, making oral presentations, and marketing goods and services effectively to potential customers locally and internationally. Government support programmes were poorly understood and utilized by emerging entrepreneurs.

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