

**Evaluating the efficacy of a government funded SME-programme in tourism in the  
Republic of South Africa**

**By**

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## **Abstract**

The North West Provincial government of South Africa funded 3 SME's programmes namely, tourism, construction and agriculture, to combat poverty. A business model was developed and tested over a period of three years. The model is based on partnerships that would contribute to sustaining the implementation of the model financially as well as technically. Three surveys were conducted with representatives of the various businesses and stakeholders by means of interviewer questionnaires. This paper will however, only deal with the results of the tourism survey. The sample was drawn from the total study population and the results thereof revealed how effective and efficient the model was implemented. This research also indicated gaps in the model that had an impact on the level of success and can be applied to other projects as well. The aim of this paper is therefore to determine the level of success of the business model and SME-development in terms of the tourism partnership.

**Keywords: SME's, tourism, construction, agriculture, partnerships and business model.**

## **INTRODUCTION AND PROBLEM STATEMENT**

Tourism in South Africa is currently perceived as underdeveloped in comparison with the global tourism industry. However, certain industries within tourism are well-developed, such as the travel and accommodation industry (Saayman & Snyman, 2003). The guesthouse sector has become an important element of the tourism industry and regionally has a modest (yet significant) impact on the economy. It was estimated that by October 2002, 26 000 developed guesthouses and Bed and Breakfast establishments in South Africa had been established (Van der Westhuizen, 2002:50). The development of the guesthouse industry made a large economic contribution of R26 billion up and to October 2002 to the larger economy of South Africa. In South Africa, even politicians started to recognise the enormous job creation, infrastructure and wealth generating ability of tourism and the sustainable role it can play in the country's economic and social progress (Viviers, *et al.*, 2003). SMEs are extremely labour-intensive. It provides a range of employment opportunities (Bennett, 2000), with a large portion of the workforce being employed by the small business sector for example if the average guesthouse in South Africa employs three people, employment opportunities for 78 000 people can be offered (Van der Westhuizen, 2002:50). This especially holds for rural districts where the population is too small to justify big businesses. Employment and the creation of new job opportunities by the small business sector are not only advantageous to the socio-economic development of rural areas, but also to the maintenance of healthy balance economic growth in urban and rural areas (SBAB, 1995).

The development of small business has been regarded by the government of South Africa as a priority and their commitment can be seen in several policies for example the White Paper on Tourism as well as the GEAR (Tourism growth, employment and redistribution)–strategy. According to the White Paper on Tourism, (1996), the government of South Africa commits themselves to promote tourism in all its facets so that the economy will gain from it and that it will improve the socio-economic welfare of the citizens of South Africa by means of SME's. The GEAR strategy was developed to address the issues of economic growth, employment creation and redistribution of income. The framework of this strategy indicates that free enterprise is the cornerstone

of a successful tourism industry and that sufficient public and private support should be given to entrepreneurs (Saayman & Saayman, 1999). Given the history of South Africa and the role that apartheid play, a Black Economic Empowerment strategy (BEE) was developed to grow the number of black owned businesses in South Africa. To address the issue, many training programmes were developed and implemented to enhance black economic empowerment (The Dti, 2004). This paper will focus on a training programme that was funded by the North West Provincial government of South Africa.

According to Saayman (2000), home-based and craft within the tourism and leisure industries, represent a small and highly specialised segment. The restricted size is mainly due to the nature of the business in this sector with fixity to the server provider's home for example a Bed and Breakfast establishment. Many black entrepreneurs started Bed and Breakfast establishments to overcome poverty and to achieve personal success (Visser, 1997 & Olivier, 2002). Several reasons exist why SME's fail, but the main reasons are lack of skills and education, a lack of proper business support structures, a lack of communication between governmental structures involved with SME's (Dannhauser, 2002), managerial incompetence (SBAB, 1995), unsatisfactorily financial management (McGrath *et al.*, 1996), a lack of good marketing (Kuscus, 1996), access to finance and credit (Sexton & Smilor, 2000), insufficient capital (Rachman *et al.*, 1996), weak business plans (Saayman *et al.*, 2001) and lastly a lack of experience (Olivier, 2002). In an era of globalisation, entrepreneurs need to have the necessary skills to compete (McGrath *et al.*, 1996). Proper SME support structure should have two characteristics: it must help to distinguish between entrepreneurs who can make it and those who cannot as well as those who continue on the road of entrepreneurship must be duly trained and guided (Dannhauser, 2002).

As a result of the above, a business model (Figure 1) was developed and tested. The model is based on partnerships that would contribute to sustaining the implementation of the model financially as well as technically.

The aim of this paper is therefore to determine the level of success of the business model and SME-development in terms of the tourism partnership.

### **METHOD OF RESEARCH**

The method of research for this paper consisted of surveys and a literature study. The surveys were conducted with representatives of the various businesses and stakeholders, in Rustenburg (situated in the North West Province of South Africa) during April to May 2004, by means of interviewer questionnaires. The beneficiaries were selected from a list that was given by the North West Parks and Tourism Board. The sample was drawn from the total study population, 10 beneficiaries and 3 local consultants interviewed for the tourism partnership. The questionnaires were based on the objectives of the study. The authors did the statistical analysis as well as the interpretation of the results.

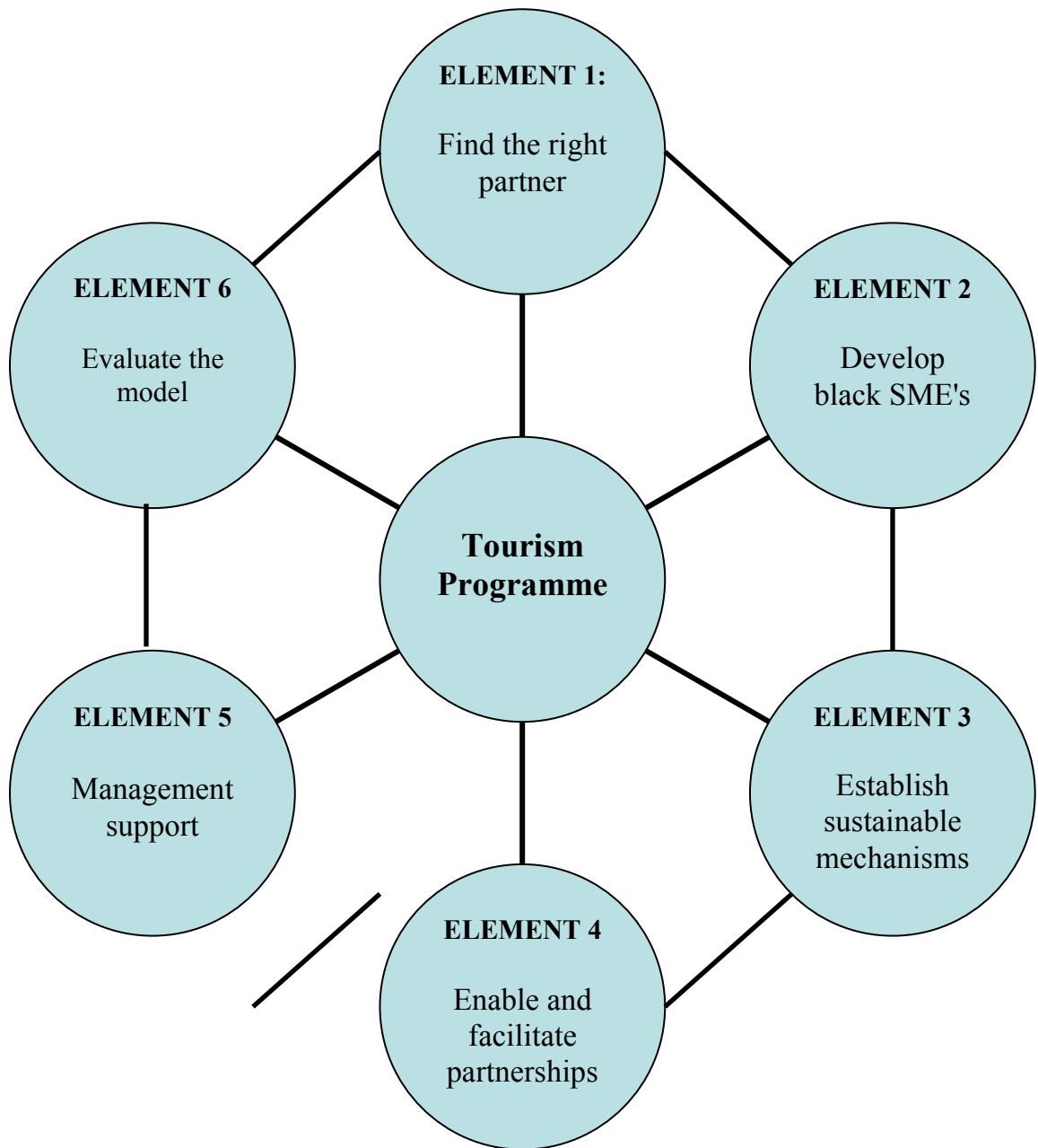
The surveys were conducted in two phases, namely:

1. Internal survey (Survey 1 – beneficiaries and local consultants of the programme):
2. External stakeholders (Survey 2 – Stakeholders i.e. included people that supported the programme either financially or in terms of experience or other resources)

A 3 point Likert scale was used where high = 3, medium = 2, low = 1, based on the aim of the model, to measure the effectiveness and efficiency of the model. The rating for each element was also given by the authors as a result of the research done on this project.

### **ANALYSIS OF THE BUSINESS MODEL**

The aim of this model is to grow the number of black SME's in selected industries and the model is based on partnerships that would contribute to sustaining the implementation of the model financially and technically. SME's will be guided through a process as described by the model.



**Figure 1: Business Model for growing SME's**

**Element 1: Find the right partner**

It is essential of black SME's to find the right partner. The role of the partner is to assist black SME's in finding the right location and what the success requirements for the tourism sector are. Assistance in the form of mentoring and marketing is also crucial in finding the right partner. Good communication between the partnerships is necessary in order to be successful.

**Element 2: Develop black SME's**

Use the partnerships to develop black SME's through a process. This process entails firstly, an analysis and selection of people who become entrepreneurs, secondly, to train and empower them to develop business plans and thirdly, to guide and mentor them to eventually access funding in order to enter the mainstream economy.

**Element 3: Establish sustainable mechanisms**

Programmes must be planned and executed according to the needs and opportunities of and for black SME's. Clear guidelines must be established to create an understanding of what the objectives are. Additional funding must be obtained by the partnership. Mechanisms must be developed for documentation reports, public relations activities as well as fees for services rendered.

**Element 4: Enable and facilitate partnerships**

In the model, the role of Provincial Government and similar public sector entities is that of an enabler and facilitator. The latter must facilitate and enable fund raising and assist partnerships in areas where public sector authority or competence is required.

**Element 5: Management support**

The private sector/support provider location and sector specific Business Development Strategy partnership model is somewhat unique. In addition, most private sector entities have limited experience in developing black Micro Small Enterprises development. Similarly, most Micro Small Enterprises support providers are not as familiar with Small Medium Enterprise mainstream economy, opportunities and challenges. Therefore, at an operational level management support is especially required for:

- Model adjustment
- Partner guidance, technical support and monitoring
- Analysis, documentation and reporting.

## Element 6: Evaluate the model

Evaluation of the model needs to take place on a regular basis. Several gaps can occur and changes have to be made to overcome these gaps.

## RESULTS

The following section will analyse the findings of the survey and compare it to the envisaged outcomes of the model. Each section of the model will be dealt with separately indicating how effective it was.

Table 1: Efficacy of the business model

<b>Aims of the model</b>	<b>High 3</b>	<b>Medium 2</b>	<b>Low 1</b>
Location for the training to take place	✓		
Understanding of objectives			✓
Communication between the different parties involved			✓
Providing mentorship			✓
Selection of beneficiaries		✓	
Level of training	✓		
Systems of monitoring success			✓
Compiling and development of business plans	✓		
Implementation of business plans			✓
Sufficient funding			✓
Sustainability of business		✓	
Replication of programme to other areas of the province	✓		
Skills transfer			✓
Jobs created			✓

Table 1 measures the efficacy of the business model. The ratings varied from high – which indicated that it was an area that the business model was successful to low – which indicate that the model was less successful.

A location has been identified for the tourism programme and it was rated highly by the researchers. All the parties involved did not have the same understanding of the objectives of and was given a low rating. As result thereof it led to misunderstandings of what needed to be done with regard to the training and financial planning.

The lack of communication created problems which contributed to a level of conflict and frustration in the tourism programme and therefore it was also given a low rating by the researchers.

Most of the focus was placed on training instead of taking it further to include the development of business plans and mentoring SME's into the mainstream economy. To a certain degree, mentoring took place, but not enough to ensure sustainability and therefore it was given a low rating.

The selection of beneficiaries was not done according to a specific criteria, as the model dictate, however, selection did take place and received an average rating. The lack in applying proper selection criteria was a serious problem which led to a large percentage of the beneficiaries not completing the programme. The beneficiaries were selected from a list that was given by the North West Parks and Tourism Board in the first year. In the second year, beneficiaries were taken from an accredited home-stay list intended for the World Summit on Sustainability hosted in South Africa, 2003. One is not sure how and where the North West Parks and Tourism Board got their list of SME's from which also could influence the success of the programme. Again this is a deviation from the original model which suggested firstly, the development of proper criteria and secondly, the implementation of such a criteria.

Training took place and in general the indication was that this aspect was done successfully and it got a high rating.

Systems to monitor success were not in place and were given a low rating. The reason being, some believe that once people are trained they can then be regarded as entrepreneurs. Some consider it as when a business plan has been developed or when the business plan is implemented. These issues needed clarity. This was a problem and contributed to most of the frustration and problems experienced. A variety of issues were raised during the interviews. The greatest problem as was previously eluded to remains a lack in monitoring.

Very few beneficiaries have completed business plans and implement it, therefore they could not access funding to grow their businesses. This also has an impact on the sustainability of businesses. The rating varied from high to low respectively.

When the programme started there were sufficient funds, but at a later stage the funds were not covering all the expenses and the training discontinued. However, the tourism programme received additional funds to continue the training and therefore got an average rating.

The programme can be replicated in other areas with success and therefore got a high rating.

Theoretically the model makes sense and the problems experienced were because of how it was applied and managed. The reasons why the implementation is not in all respects successful include lack of communication, lack in monitoring, guidelines for funding and how it is administered, perceptions of incompetence of the trainers, lack of clarity of objectives to name a few (Dannhauser, 2002 ; Sexton & Smilor, 2000 ; Orford *et al.*, 2003). The idea that the beneficiaries should do some form of skills transfer did not take place. Reasons for this could be a lack of skills or how to do a skills transfer. Ongoing monitoring/evaluation remains the key and was not done properly because corrective actions could have been implemented earlier in the process. Hence, evaluation should be an ongoing process of regular feedback, clear communication and site visits.

Table 2: Problems experienced by SME's

<b>Reasons why SME's fail</b>	<b>High 3</b>	<b>Medium 2</b>	<b>Low 1</b>
Lack of skills		✓	
Lack of education	✓		
Lack of business support structures	✓		
Lack of communication between governmental structures involved with SME's	✓		
Managerial incompetence			✓
Lack of financial management		✓	

Lack of good marketing	✓		
Access to finance and credit	✓		
Insufficient capital	✓		
Weak business plans			✓
Lack of experience		✓	

In Table 2, the problems experienced by SME's were rated on a scale of high – which indicated that it is a serious problem to low – which indicate a less serious problem. The above mentioned model stressed the problems that were supported by literature (Dannhauser, 2002 ; SBAB, 1995 ; McGrath *et al.*, 1996 ; Kuscus, 1996 ; Sexton & Smilor, 2000 ; Rachman *et al.*, 1996 ; Saayman *et al.*, 2001 ; Olivier, 2002 & McGrath *et al.*, 1996).

## CONCLUSIONS AND RECOMMENDATIONS

The aim of this paper was to determine the level of success of the business model and SME-development in terms of the tourism partnership. The research found that the model is workable, however, guidelines and systems must be communicated and the programme needs to be continuously evaluated.

- This research supports previous research done by researchers on why SME's fail for example:
  - Lack of communication;
  - Lack of funding;
  - Lack of experience;
  - Lack of skills and education to name a few.
- In order to address the above more training is required coupled with a mentorship programme.
- The selection criteria of entrepreneurs also needs serious attention.

Based on the above the following recommendations can be made:

- Basic management training should be done by accredited institutions/presenters.
- Funds for SME's must be made available to entrepreneurs.

- Systems to evaluate the successes/failures of SME's must be implemented and monitored.
- Educational programmes should be developed specifically for tourism entrepreneurs.
- Mentorship or aftercare programmes must be developed and implemented.
- Research should be done in order to develop selection criteria on a more scientifically basis.

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