

**TOURISM BUSINESS GROWTH WITH SPECIFIC REFERENCE TO
BLACK ECONOMIC EMPOWERMENT IN THE TOUR OPERATING SUB
SECTOR IN SOUTH AFRICA.**

BY

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DECLARATION

I, Theuns Charles Vivian, declare that the contents of this thesis represent my own work, and that the thesis has not previously been submitted for academic examination towards any qualification. Furthermore, the facts and conclusions herein are my own and not of any other individual.

Signature: _____ Date _____

ABSTRACT

This study reports on the findings of research that was conducted amongst tour operators in South Africa in an attempt to determine the level of Black Economic Empowerment (BEE) in the sub-sector as well as to determine measures that will expedite BEE. The survey method was deployed to generate primary data from this target market and the Chi square method used to determine causality between the size of enterprises and the support for BEE in principle. This method was also used to determine if the size of an enterprise influences the propensity to support and apply BEE in tour operating enterprises as well as the utilization of incentives.

The research indicate that the vast majority of tour operating enterprises in South Africa are small businesses with 62,3% indicating a turnover of R2,5million or less per annum and 63,9% indicating that they employ two or less full time employees. In terms of ownership, 14,3% of respondents indicated that they are 100% black owned. The fact that these enterprises are small makes it difficult to attract investment or involvement from Previously Disadvantaged Individuals (PDI's) although 72% of respondents indicated that they support BEE in principle. However the application of BEE in these enterprises are only supported by 61,8% of respondents and the degree of implementation vary according to the different components of the tourism scorecard. In terms of the seven pillars of the tourism scorecard, the procurement and social investment pillars achieved the best results.

In order to grow this sub-sector and create opportunities for BEE expansion, government needs to provide training and education interventions as well as dedicated incentives to assist tour operators in gaining access to markets and capital goods. The suitability of all the pillars in the tourism BEE scorecard is questioned due to the nature of small businesses and further research needs to be done on the other sub-sectors in tourism to determine a scorecard that can be effectively implemented.

A model for business growth is proposed to enhance the BEE efforts and to create opportunities for fast growth and new start-up businesses. The model consists of interventions aimed at the following four areas:

- Enterprise level (new start-ups and fast growth enterprises)
- Sector specific environment
- Economic growth in the external environment, and
- New target markets

A recommendation to the National Minister for Tourism during the course of this study has resulted in the provision for a national tourism database in the Tourism Bill (2011).

Key Words: Tourism, Tour operating, Black Economic Empowerment, Entrepreneurship.

DEDICATION

I dedicate this study to my father, Dennis Charles Vivian, who at 78 years of age is still actively consulting in the electrical engineering field. He has taught me that hard work is only a virtue if it carries the blessing of God...and to my mother, Marie Vivian who has been a loving guide and mentor to me; and a wonderful grand-mother to my children. I salute you.

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ABBREVIATIONS AND ACRONYMS

ASATA: Association of South African Travel Agents
BABASA: Bed & Breakfast Association of South Africa
BBC: Black Business Council
BEE: Black Economic Empowerment
BMF: Black Management Forum
CGE: Computer equilibrium modelling
COASA: Coach Operators Association of Southern Africa
CSI: Corporate Social Investment
DEAT: Department of Environment and Tourism
DTI: Department of Trade and Industry
EXSA: Exhibition & Event Association of Southern Africa
FEDHASA: Federated Hospitality Association of South Africa
FTTSA: Fair Trade in Tourism South Africa
GEM: Global entrepreneurship Monitor
GHASA: Guest House Association of South Africa
GSA: General Sales Agent
ITMAS: International Tourism Marketing Assistance Scheme
MICE CLUB: Meetings, incentives, conferences & exhibitions
NAA: National Accommodation Association
PDI: Previously Disadvantaged Individual
PPT: Pro Poor Tourism
RDP: Reconstruction and Development Programme
SAACI: South African Association of Conference Industry
SAT: South African Tourism
SATSA: Southern African Tourism Services Association
SAVRALA: South African Vehicle Renting and leasing association
SMME: Small, Medium and Micro Enterprise
TEP: Tourism Enterprise Programme
THETA: Tourism, Hospitality and Sport Education and Training Authority.
UN-WTO: United Nations World Travel Organisation
WTTC: World Travel & Tourism Council

CHAPTER ONE

BEE PERFORMANCE IN THE TOUR OPERATING SUB-SECTOR

1. Introduction

Since the new government took office in 1994 it made an attempt to redress the inequalities of the past by introducing affirmative action policies as well as BEE programmes as supported and demanded in the Constitution of the Republic of South Africa, Act 108 of 1996.

Section 9(1) of the constitution reads:

“Everyone is equal before the law and has the right to equal protection and benefit of the law.”

Section 9(2) reads:

“Equality includes the full and equal enjoyment of all the rights and freedoms. To promote the achievement of equality, legislative and other measures designed to protect or advance persons or categories of persons, disadvantaged by unfair discrimination may be taken.”

Section 9(3) reads:

“The state may not unfairly discriminate directly or indirectly against anyone on one or more grounds, including race, gender, sex, pregnancy, marital status, ethnic or social origin, colour, sexual orientation, age, disability, religion, conscience, belief, culture, language and birth.”

With these rights entrenched in the constitution, government introduced BEE legislation to advance black people in South Africa in an attempt to address the injustices of the past. The objective of BEE is not to compensate people for the injustices of the past but to rectify the way in which these injustices perpetuate inequalities into the future (Marcus, Mangcu, Shubane & Hadland, 2007:11).

The tourism sector was identified as a key growth sector for the future and legislation and programmes were put in place to achieve black economic empowerment in tourism. In 2004 the national minister for tourism embarked on a programme to design a tourism BEE scorecard for the sector. After this consultative process was completed, the Tourism Charter was signed on 18 July 2006. This charter paved the way for implementing BEE through the Codes of Good Practice as gazetted in terms of section 9 of the BEE Act.

However, after all these interventions and programmes were introduced, the transformation of the industry has remained poor as reflected in the findings of the Baseline Study on BEE in Tourism, conducted in 2006 (Yarona, 2007: 28). A key finding in this study was that different sub-sectors in the tourism sector were performing at different levels of integration and that specific measures were needed to ensure BEE progress across all sub-sectors. Very little information exists in terms of the tour operating sub-sector and due to their potential influence on product composition, distribution and marketing, the researcher decided to identify the state of transformation as well as the measures to grow and advance BEE, in this sub-sector. The following sections provide a general introduction to tourism in South Africa as well as the challenges faced in terms of implementing BEE in tour operating.

1.1 Tourism in South Africa

The economic value of travel and tourism are reflected in the tourism industry as well as the tourism economy of a country. The direct economic influence of travel and tourism is referred to as the tourism industry and take cognizance of the key sub-sectors such as accommodation, tourist transport, entertainment, tourist attractions and services, and tourist guiding. The broader influence of travel and tourism is reflected in the tourism economy that comprises of all tourism activities, directly and indirectly influencing the economy (Keyser, 2002:290). In South Africa tourism is considered as one of the key economic drivers and a new ministry, dedicated to tourism has been introduced in 2009 to further the aims of tourism marketing and development. Although tourism is not a

formal economic sector, it will be described as a sector in this thesis due to its cross-sectoral classification as used by the Tourism Enterprise Partnership in South Africa (Tourism Enterprise Programme, 2008:1).

In 2007 the number of international visitors in the global market, reached 903 million visitors with a spend of US\$ 856 billion (SAT, 2008:6) for the year. The contribution by tourism to the GDP of South Africa is estimated to have increased from 7,9% (R137,6 billion) in 2006 to 8,1% (R159,6 billion) in 2007 while the number of new jobs created by tourism in the economy (direct and indirect) increased by 5% from 896,900 in 2006 to 941,000 in 2007 (SAT, 2008:6). These figures are in contrast to the predicted growth in 1998 by the World Travel and Tourism Council (WTTC) as reflected in their country report "South Africa's Travel and Tourism – Economic Driver for the 21st Century". This report was optimistic about South Africa's tourism future and predicted tourism employment figures in the travel and tourism economy to grow by approximately 113% from 737,617 in 1998 to 1.570,500 in 2010. These employment figures were adjusted in the WTTC report: "South Africa, the impact of Travel and Tourism on jobs and the economy" (2002:3) to 1.148,000 by 2002 and 1.555,300 by 2012. This report acknowledges that employment figures were lower than predicted by the WTTC in 1998 and declared that expectations, promises and targets set at the time, were not reached (WTTC, 2002:41).

In the WTTC report: "2008 Travel & Tourism Economic Research, South Africa", (2008:1) they predicted that employment figures would amount to approximately 1.011,000 in 2008 and grow to 1.280,000 jobs by 2018. These downward adjusted figures are based on the expected GDP growth figures for the travel and tourism economy that are expected to decrease from 8,3% in 2008 to an average rate of 4,3% over the next 10 years (WTTC, 2008:1). The latest available figures indicate that tourism contributes only 2, 8% to GDP as measured for 2009 (SAT, 2010:1).

This predicted decline in GDP is evident in the decline in average expenditure in South Africa, from US\$ 1,500 in 2006 to US\$ 1,400 per trip, for all foreign tourists during 2007 (SAT, 2008:31). This decline in GDP is also triggered by the increase in prepaid costs,

that rose by 27, 1% from 2006 to 2007, and South African Tourism (2008:31) ascribe this increase in prepaid costs to the rising oil price. Other contributing factors are the decline in international travel due to the global financial crisis of 2008 and the upsurge in the gold price in 2010/11 that will influence the proportional contribution to GDP. Unfortunately the tourism figures prior to 2010 cannot be used for comparisons with the latest figures as Statistics SA changed its methodology to be in line with international accepted definitions in tourism. For the first time day visitors are now separated from tourist figures in the data sets and from 2010 onwards a new series of annual reports will be compiled using the revised methodology (SAT, 2010:4).

This underperformance and negative adjustments in expected future growth gave rise to the private-public partnership between the Department of Environmental Affairs and Tourism (DEAT) and the Business Trust, known as the Tourism Enterprise Partnership (TEP) in conducting a study of South Africa's emerging small, medium and micro tourism enterprises during 2008 (TEP, 2008:1). The purpose of this study was to determine how the growth of this sector and its rewards, could be extended to emerging SMME's and specifically to Previously Disadvantaged Individuals (PDI's).

For the purposes of the TEP study, emerging SMME's were defined as middle- and lower-level enterprises with turnovers of less than R25 million per annum and earning at least 25% of their revenue from tourism. The results reflect that the SMME's in this sample, employed on average 6 employees, whilst the most enterprises that participated in the study conducted business in the accommodation sub-sector (TEP, 2008:6).

1.2 Tour operating

A key player in the distribution network is the tour operator that deals with the purchase of tour components, the packaging of these and then selling them to clients (Tribe, 2010:73). Tour operators are people or companies that purchase the different items that make up an inclusive holiday, in bulk, combines them, and then sell the final products to the public either directly or through travel agencies as packages (Lubbe, 2000:254). Package travel in the USA is large and complex according to PhoCusWright

(2009:1) and over 700 tour operators and online travel agencies, represented over \$18 billion in gross travel sales in 2008. The importance of these role players are evident in the research commissioned by the American Society of Travel Agents on the US Packaged Travel Landscape: 2006 – 2010, and the report has been released in 2009 as the first of its kind in the USA. (PhoCusWright, 2009:1).

The tours that tour operators compile can be classified into three general types:

- Escorted tours
These tours consist of a tourist guide or escort that accompanies the group for the entire duration of the tour.

- Hosted tours
These tours consist of a tour manager that sees to all the travel arrangements of the group but does not travel with the group on their excursions.

- Independent tours
These tours provide group members different options in terms of accommodation, excursions, transport, etc. although they are still treated as part of a group (George, 2007:134). This will enable some group members to stay in hotels if they so desire whilst other members stay in nearby guest houses. The challenge for the tour operator is then to coordinate the transport arrangements to suit the group taking into account that they have different geographical locations.

According to Hall (2007:1) the Pro-Poor Tourism Partnership defines tour operators as businesses that combine two or more travel services and sell them through travel agencies or directly to consumers as a single product. They emphasize the importance of tour operators as a crucial link in the distribution chain, representing the central connection between customers and providers of tourism services and thus have the power to influence the demand and supply side in tourism. They seek to maximize the benefits of tourism for the host community and in doing so to alleviate poverty in developing countries (Tribe, 2010:36).

Tour operators provide benefits to both tourists as well as other businesses. The benefits that tour operators hold for other businesses include:

- Cost savings for tourism enterprises in terms of tour operators dealing directly with tourists and other suppliers and diminishing the need for tourism businesses to employ sales and customer care staff.
- Tourism businesses cannot afford to have a myriad of retail outlets for their individual products and rely on the tour operator to fulfill this function.
- Tour operators can also reduce the risk of unused capacity and ensure that utilization or occupancy figures are higher than if the individual tourism enterprise would rely on their own efforts to sell the products/services to tourists.

Tour operators can offer the following benefits to tourists (George, 2007: 127):

- They provide the convenience of sourcing appropriate products and negotiating better value propositions than what the tourist can do for them.
- Tour operators have specialist knowledge and can ensure a good match between product and client and ensure that expectations are met.
- Bulk purchasing by the tour operator can drive prices down and tourists will save on the expenses to shop around and negotiate for better prices.
- Tour operators can also offer a wider range of options as tourists are not familiar with the total product offering that a destination might offer.
- When things go wrong for the tourists, a tour operator can intervene to resolve the issue on their client's behalf. The fact that they are bulk buyers will encourage the supplier to be more willing to rectify the problem.

- Tour operators will spread the risk of engaging in tourism over many of their clients and thus provide consumer protection to the tourists that would cost more if tourists had to buy this on an individual basis (George, 2007:127).

Tour operators also featured in the TEP survey (2008:12) and mention is made of the fact that tour operators have to buy and maintain expensive vehicles to participate in this manner. These findings indicate that successful operators tend to be established enterprises patronised by large travel agencies. This poses an inherent problem for new tour operators that are not established and unknown to the large travel agencies. TEP (2008:28) also identified the characteristics associated with success or failure in tourism SMME's and these characteristics are depicted in Table 1.1. One of the positive outcomes of this study was that the demand for tour operator services indicated steady growth. On the negative side a significant static component was detected and this points towards problems surrounding market access (TEP 2008:13).

1.4 Government interventions to stimulate BEE

During 1998 the WTTC encouraged the South African Government to place more emphasis on travel & tourism education and the government responded by introducing the Skills Development Act 97 of 1998 and the Skills Development Levies Act 9 of 1999 (Rwigema, Urban & Venter, 2008:248). These Acts manifested the Skills Development Levy System in 2000. This system requires companies to contribute one percent of their payroll to the skills development levy in order to encourage and fund training and skills development in the country. This component was then also incorporated in 2005 into the Tourism BEE Charter and Scorecard and awarded a 20% rating to skills development. The South African government made it clear in the promulgation of the Broad-based Black Economic Empowerment Act, no 53 of 2003 that it aims to integrate black entrepreneurs and business into the existing industries.

Table 1.1 Characteristics associated with success or failure

SUCCESS	FAILURE
Well-resourced operations	Lack of transport and operating equipment
Licensed, registered and insured operations	Lack of resources/finance
Owner previously employed in supervisory or executive position	Owner previously employed in unskilled position
Owner previously employed for relatively lengthy period	Owner previously unemployed or employed for short periods
Finalised or implemented marketing plans	Rudimentary or no marketing plans
Marketing or advertising in media or formal tourism networks	No marketing material
Owner able to draw fixed monthly income	Owner draws as much income from business as possible
Owner delegates responsibility to senior staff, not family or friends	Owner delegates responsibility to family and friends
No expectation of external support	Owner expects external support or assistance
Grade 12 or tertiary education	Low levels of education
Prior market research	Little or no market research
Intrinsic interest in product	Business started because of lack of money or job
Management, technical and financial skills	Owners believe they lack business skills
No perceived need for training or additional skills except in respect of staff relations	Perceived need for additional skills
Concern with quality of product	Quality of product not first priority
Products affordable, varied, value for money	Products lack variety
Well located in terms of markets	Poor market access
Member of business or tourism organisations	Business operates in isolation

Source: Adapted from Tourism Enterprise Programme (2008:28).

In May 2005 the Tourism BEE Charter and Scorecard was announced in an attempt to stimulate and monitor the integration of previously disadvantaged individuals into mainstream tourism. The preamble to the BEE Charter expressed the commitment of all stakeholders in the Tourism sector to the empowerment and transformation of the sector and to ensure that the benefits and opportunities of this sector are extended to black South Africans as well (DTI, 2005:1).

Government realized the specific challenges that new entrants and small business operations face and a package of support was developed for this purpose. Small business support for the Tourism sector included the launch of the Support Programme for Tourism Businesses Handbook in 2002 and listed government support programmes for smme's, funding criteria, the application process for funding as well as contact details of support organizations. The funding sources comprised of mainly four programmes which included the Tourism Enterprise Programme, International Tourism Marketing Aid Scheme, Khula Enterprise Finance and the Small Medium Enterprise Development Programme (Mason, 2003a:D.4.40). The provision of support packages and incentives were seen as key mechanisms to stimulate growth in tourism. Government and the private sector were aware of the job creation opportunities that were associated with this growth and to this extent the Tourism Enterprise Partnership was created. The main goal of the Tourism Enterprise Partnership (TEP) was to create jobs in and through the tourism economy by assisting SMMEs to grow and establish business linkages. Table 1.2 depicts the achievements of this programme for the period 1 August 2000 to 31 March 2002.

**Table 1.2 Tourism Enterprise Programme:
Achievements 1 August – 31 March 2002**

	Achieved	4-year target till 31/07/04
Total small enterprises assisted	478	1,000
Distinct transactions facilitated	371	1,000
HDI-owned enterprises:	77%	75%
Value of increased SMME revenues	R123m	R450m
Person days of work created	852,000	2,000,000
Full-time job equivalents	4,260	10,000

Source: Mason, 2003a:D.4.40.

TEP identified the lack of skills and inadequate marketing as the major constraints to the growth of many of the SMMEs that they assisted (Mason, 2003a:D.4.40). These two

issues were included in the questionnaire that was circulated to tour operators in an attempt to determine suitable solutions that would be supported by industry.

Rogerson (2007:13) refers to an independent evaluation of TEP in 2004 which indicates that most of TEP's quantitative objectives were reached although there is room for improvement. The progress in performance can clearly be seen in table 1.3 and shows how their targets for the period 2000-2004 were exceeded. An important achievement by TEP, was the ability to bring together markets, finance and support structures to benefit tourism smme's by building strong cooperative relationships with stakeholders in the tourism industry. TEP was awarded the "Best Initiative in Facilitating SME Tourism Investment" in 2008 and have created approximately 43,711 new job opportunities in tourism, assisted a total of 4,166 tourism SMME's and facilitated incremental revenue growth worth of R3,4 Billion since 2000. In order to ensure long-term support of enterprise development in the tourism sector, TEP changed in April 2008 from a limited duration programme to a Section 21 Company called Tourism Enterprise Partnership (ECI Africa, 2008:1)

Table 1.3 Performance of Tourism Enterprise Programme for the period 1 July 2000 to 30 June 2004

	TARGET	ACTUAL
Value of transactions for SMME's (R million)	R 450	R1095
Number of transactions	1000	1552
Number of transactions involving HDE transactions	750	1068
Job opportunities	10 000	16 886
Enterprises registered	1650	3169
Enterprises assisted	1000	2029
Service providers registered	100	561
Enterprises in transactions	200	1202
HDE enterprises in transactions	150	867

Source: Adapted from Rogerson (2007:13).

Government also realized the challenges in terms of international market access and the need by small enterprises to market their services/products internationally. The International Tourism Marketing Aid Scheme (ITMAS) was introduced by the Department of Environmental Affairs and Tourism during 2002 in an attempt to assist SMMEs with their marketing expenses for attending international exhibitions and producing and distributing marketing material (DEAT,n.d:1). A business would qualify for this assistance if it complied with three of the following criteria:

- The business is owned by historically disadvantaged individuals
- The business is owned by disabled individuals
- It has been in operation for between one and four years
- It has a turnover of less than R1m per annum
- It has operational assets worth less than R1m.

The applicants for these funds had to be registered members of an official tourism trade organization and have formal SA Tourism approval to attend an international marketing exhibition such as World Travel Market (UK) and ITB (Berlin).

With all the above interventions in place the smme's in South Africa still faced the challenge of inadequate finance for start-ups as well as for expansion purposes. The Department of Trade and Industry (DTI) initiated Khula Enterprise Finance (1996) to facilitate access to private sector financing and to develop business plans that would satisfy the funding institutions. Khula also provided credit guarantees of up to 80% of a R1m loan (Rwigema & Venter, 2004:397). Khula did not require that applicants had to be black but served all people that did not have sufficient accumulated wealth to serve as collateral in obtaining loans. However, the nature of the South African economy is such that the majority of black South Africans fall into this category.

A further support programme, the Small Medium Enterprise Development Programme, was established by DTI in December 2004 to offer cash grants to tourism-related businesses to invest in buildings, furniture, equipment, and tourism vehicles. These

grants (tax free) were offered for a period of two years to applicants that have been operational for less than six months or those who plan to increase their current capacity by more than 25%.

With all these programmes and support interventions in place, government was keen to see the South African tourism industry transform within the broader economy, which was also expected to transform rapidly. The capital reform in the South African economy started in 2002 and was supported by upward trends in gold and platinum prices, BEE charters for the liquid fuels and mining sectors, and new financing models. Patrice Motsepe's company, African Rainbow Holdings, and Tokyo Sexwale's company, Mvelaphanda Holdings, locked in equity gains of about R15bn during a window period of business opportunities between 1999 and 2002. (Gqubule, 2006:125) Government released a BEE strategy and BEE Act in 2003 and took capital reform to a new level with BEE transactions worth more than R100bn during 2003 to 2004. These reforms were mainly in the financial and mining sectors.

1.4 Research problem

South Africa's capital reform process from 1994 to 2001 has been a dismal failure and resulted in black ownership comprising less than one percent on the Johannesburg Stock Exchange's market capitalization (Gqubule, 2006:103).

The following four main reasons were cited for the failure of the capital reform policies from 1994 to 2001 (Gqubule, 2006:103):

- the country's punitive real interest rate
- low economic growth rate
- the failure to integrate capital reform into macro-economic policies, and
- the reluctance by government to intervene in strategic sectors to transform power relations.

Since 2002 Government has stepped up their interventions to stimulate transformation in the economy and the Minister for Trade and Industry, Minister Irwin announced in

2003, a Black Economic Empowerment task team that would serve until the Advisory Council on Black Economic Empowerment would be appointed (DTI, 2003:1). In 2003 the Broad-based Black Economic Empowerment Act, no 53 of 2003 was promulgated in an attempt to expedite BEE on a macro level. The main goal of this act was to establish a legislative framework for the promotion of black economic empowerment and to set-up mechanisms that could achieve this goal.

The objective of the Act was to facilitate black economic empowerment in all sectors by:

- promoting economic transformation that would enable meaningful participation of black people in the economy
- initiating substantial change in the racial composition of ownership and management structures as well as skilled occupations in new and existing enterprises
- increasing the extent to which communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training
- increasing the extent to which black woman own and manage existing and new enterprises, increasing their access to economic activities, infrastructure and skills training
- promoting investments that lead to broad-based and meaningful participation in the economy by black people in order to achieve sustainable development and prosperity
- empowering rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills, and
- promoting access to finance for black economic empowerment (DTI, 2003:5).

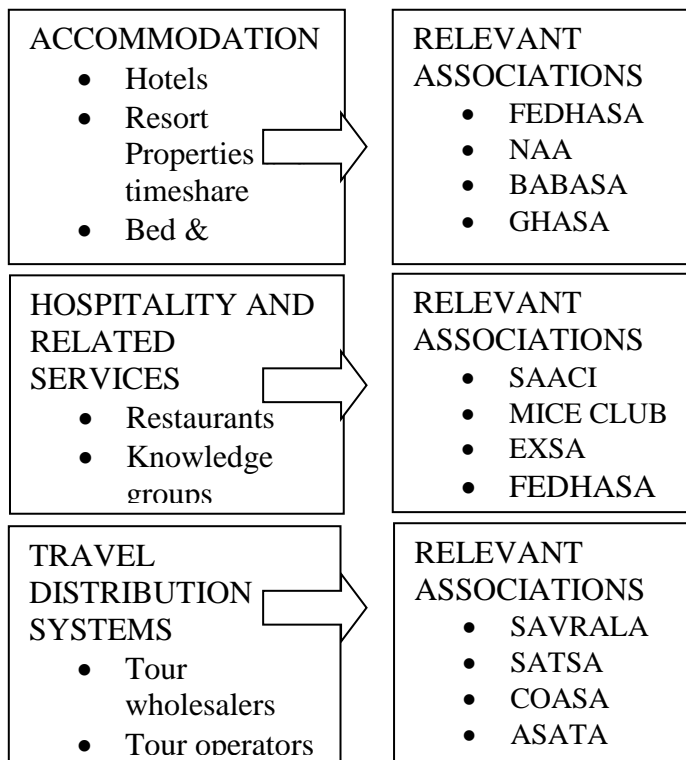
This Act makes provision for the establishment of the Black Economic Empowerment Advisory Council and stipulates the following functions for them to perform (Act no 53 of 2003:6):

- advise government on black economic empowerment
- review progress in achieving black economic empowerment

- advise on draft codes of good practice
- advise on the development, amendment or replacement of the strategy on broad-based black economic empowerment
- advise on draft transformation charters if required, and
- facilitate partnerships between organs of state and private sector that will enhance the objectives of this Act.

In the Tourism sector, a Tourism BEE Scorecard Steering Committee produced an initial outline for the scorecard in October 2004 and embarked on a Provincial road show to solicit views and comments from communities and stakeholders to enrich the scorecard (DEAT 2004:1). The Steering Committee that compiled the BEE Scorecard for Tourism comprised of 18 members appointed by the Minister for Environmental Affairs and Tourism. The structures of the working groups that were tasked to develop the Tourism BEE Scorecard are depicted in Figure 1.1

Figure 1.1 Tourism BEE Steering Committee Structures



Source: <http://www.environment.gov.za/NewsMedia/> Tourism BEE Scorecard Process Goes Provincial. 3 October 2004.

In order to measure the effectiveness of all these interventions and legislation, a baseline study needed to determine the departure points against which progress would be measured. The Tourism BEE Charter Council commissioned such a baseline study in 2006 to determine the state of transformation in the tourism industry.

The results of this study were released in 2007 and the following challenges were identified by respondents:

- finding appropriate BEE partners and senior executive partners,
- availability of BEE compliant suppliers,
- Notwithstanding the aforesaid, BEE compliant SMME's such as Tour operators, indicate that they are experiencing a reluctance from industry to allow them access to the market,
- Sourcing and retaining qualified EE candidates, particularly qualified black women,
- Aligning their current efforts on enterprise development with the indicators of BEE achievement as detailed in the scorecard, and rating themselves (Yarona, 2007: x-xi).

The fact remains that with all the above interventions from government and the private sector in place, the tourism industry is still accused of not being transformed as detailed in the Tourism BEE Charter. Although the baseline study of 2006 reveals some levels of transformation, the tour operating sub-sector is grouped with other services and distorts the level and complexity of this important sub-sector.

The need exists to understand this sub-sector and their support needs in order to enable government interventions that are tailor-made to achieve growth and transformation in the tourism industry. The potential of tour operators to incorporate PDI's in their product mix, procurement activities, partnerships and human resource development, needs to be understood and utilized. However, before this can be achieved the level of BEE in this sub-sector (BEE status of businesses) needs to be assessed as well as the levels of implementation of BEE, in their business operations. This research endeavors to

generate the primary information needed to address these issues and the industry leaders of this sub-sector supports the research (Annexure 1).

1.5 Research objectives

The research problem has been identified as perceived poor BEE levels in the tour operating sub-sector of South Africa.

1.9.1 Primary objective

To determine interventions, as expressed by tour operators, that will enhance business growth and BEE expansion in the tour operating sub sector of South Africa.

1.9.2 Secondary objectives

In order to achieve the primary objective the following secondary objectives need to be attained:

- To determine the level of black economic empowerment that exists amongst tour operators
- To ascertain if there are causal relationships between the characteristics of tour operators and the perceived poor performance of BBBEE in this sub sector.
- To determine the support interventions identified by tour operators that are needed to:
 - i) improve black economic empowerment in the tour operating sub-sector, and
 - ii) interventions that will stimulate growth to sustain this sub sector.
- To design a business growth model that will enhance BEE efforts.

The results of this research will provide an insight into the level of BEE in the tour operating sub sector in South Africa and identify interventions that can be implemented to expedite BEE.

1.10 Methodological justification

1.10.1 General

The assessment of this sub sector was problematic as there is no central database with tour operator details. There is no compulsory registration system that lists tour operators in South Africa whilst the national sector body, Southern African Tourism Services Association (SATSA) is a voluntary membership body. Apart from the general regulations pertaining to small business and the transport legislation that requires transport certificates and permits, no tourism regulations exist to register tour operating businesses on a central database.

The research plan for this study was to compile a comprehensive database of tour operators in South Africa that would serve as the parent population. A simple random sample was to be drawn from the parent population and questionnaires distributed to them by email. The complete process of sampling, data collection, coding and capturing, and analyses of data will be discussed in Chapter Five: Methodology.

1.10.2 Secondary research

The secondary resources are limited in terms of tour operating and black economic empowerment in the tourism industry. A comprehensive study of Tour Operating and Black Economic Empowerment literature provided information that can be applied to the South African tour-operating sector. The researcher contributed to the implementation and construction of the, Baseline and Transformation Trends in the Tourism Industry study, that was conducted in 2006 and this information is discussed in Chapter Four (Black Economic Empowerment in South Africa) in an attempt to explain the current BEE situation in South Africa.

At the outset of this study a literature review was conducted by using the Internet search engines (e.g. Yahoo, Google, Kalahari, Colossus, Aardvark, Ananzi, etc.) by prompting the searches with the following keywords: tourism, tourism development, tourism

research, black economic empowerment, affirmative action, tour operating, tourism entrepreneurship and small business management.

In addition, a NEXUS search was embarked on to determine if similar studies were conducted in the South African context. The feedback obtained by this search confirmed that no similar study was conducted in the tour operating sub sector in South Africa. A further search was conducted on ScienceDirect to find appropriate articles related to tour operating. A total of 26 articles that referred to tourism entrepreneurship, small business and tour operating were cited. Only one of these: "The perception of small and medium sized tourism accommodation providers on the impacts of the tour operators' power in Eastern Mediterranean", (Bastakis, Buhalis & Butler, 2004:151-170) referred to tour operators. The secondary sources reviewed are listed in a comprehensive bibliography that is attached to this study.

1.10.3 Empirical (Primary) research

Empirical research is derived from the term "empiricism" that refers to querying knowledge through observation. For the purpose of this study qualitative research was conducted, as this method is suitable to understanding the context in which behaviour occurs and not just the extent to which it occurs. The survey procedure was selected to gain primary information from tour operators in South Africa as this procedure is the most appropriate for target markets that are widely dispersed and needs to be surveyed speedily and at low cost (Churchill, 1996:271).

The questionnaire was compiled according to the dendrogram method and tested with SATSA to clarify terminology and clarity of questions. The responses were coded by means of the SSPS version 18 research programme to ensure proper analysis of results and the completed questionnaires numbered and filed for verification purposes.

The methodology and findings of this study are documented in Chapters Five and Six of this thesis. These results are analysed at the hand of the Chi squared test which compares the observed results of the study, to the expected results.

1.11 Delineation

This study focused on South African based tour operators as they fall under the jurisdiction of South African law and play a significant role in projecting the image of the country. Tour operators that promote tourism to South Africa, but are based in foreign countries, are not included in this study because the South African Government has no jurisdiction to enforce black economic empowerment in those countries.

The national governments' tourism objectives as manifested in policy documents, such as legislation and sub-ordinate legislation relating to black economic empowerment, were used to create the macro framework within which Provincial and Local governments operate.

1.8 Significance

This study will shed light on the level of progress that is made in terms of black economic empowerment in the tour operating sub sector as no such information exists. The outcomes of the study will enable policy makers in the private and public sectors to determine the support that South African based tour operators need to sustain growth of these businesses and advance black economic empowerment through their actions. The business growth model proposed will enable the public and private sectors to expedite BEE implementation.

1.9 Organisation of this thesis

In order to achieve the objectives of this study, the chapters in the thesis are arranged as follows:

Chapter One is a general Introduction to the thesis and provides a background to the study. The research problem and objectives are discussed and the methodology used to achieve these objectives, explained.

Chapter Two contextualises the role of tour operating in the Tourism System and reviews the literature pertaining to tour operating and research in this sub sector.

Chapter Three describes the governments' policy of Broad-Based Black Economic Empowerment and how it relates to tourism. The slow progress in terms of BEE is sighted and the measures imposed to achieve these objectives. The role of the Tourism BEE Charter Council and the BEE scorecard are discussed in terms of objectives, strategies and actions taken.

Chapter Four reviews the literature pertaining to Entrepreneurship and Business Management and indicate how support programmes can be used as a part of a support model to sustain growth in the tourism industry.

Chapter Five explains the methodology applied in the research and motivates the compilation of the research plan and the selection of research instruments. The questionnaire composition is explained at the hand of the dendrogram technique and the distribution method clarified.

Chapter Six presents the findings of the research and data is tabulated to provide a structured report on findings. Figures and tables provide a visual reflection of the findings and compliment the reporting on the research results.

Chapter Seven proposes a business growth model that will enhance BEE efforts and indicates the underlying thrusts that will ensure application on a broad basis.

Chapter Eight concludes the study and recommends suitable interventions that government can institute to stimulate BEE amongst tour operators and sustain growth in this sub sector.

Supporting documents are attached as annexures and a comprehensive bibliography indicates the secondary sources consulted for this study.

CHAPTER TWO

THE TOURISM SYSTEM

2.1 Introduction

Tourism can be defined in many ways and whilst “tourism” and “travel” are used interchangeably in many cases, the United Nations World Tourism Organisation (UNWTO) defines tourism as follows: “Tourism is the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited”.

The use of this broad concept makes it possible to identify tourism between countries as well as tourism within a country. Tourism refers to all activities of visitors, including both tourists that are overnight visitors and same-day visitors (Page, 2009:14). South Africa has strived to sustain economic growth through various ways including international tourism and although international tourism contributes to the growth of many economies, it is in turn, also influenced by growth in developed countries (Akinboade & Braimoh 2010:1).

In order to sustain tourism growth in a destination, the characteristics of tourism needs to be understood. One of the service characteristics of tourism is that the main location, at which the consumption takes place, is outside the home environment of the user. The tourism product is based on a complex set of infrastructure and physical resources that gives the product its unique character. The combination of these resources is not the product that the tourists’ purchases but the experiences provided by them and therefore the understanding of tourism must be approached from a production and consumption perspective. This inseparability of production and consumption is one of the key characteristics of tourism with the value of the experience being determined by the consumer, the producer of the experience as well as the tourism product (Cooper & Hall, 2008:5).

The understanding of tourist behavior and their motivations for travel are complicated by the fact that they cannot be studied in the same vein as other consumers. Page (2009:82) argues that there are several critical dimensions that create differences between tourist behavior and consumer behavior. One of these dimensions is the extended phases that are associated with tourist activities.

These extended phases include the following:

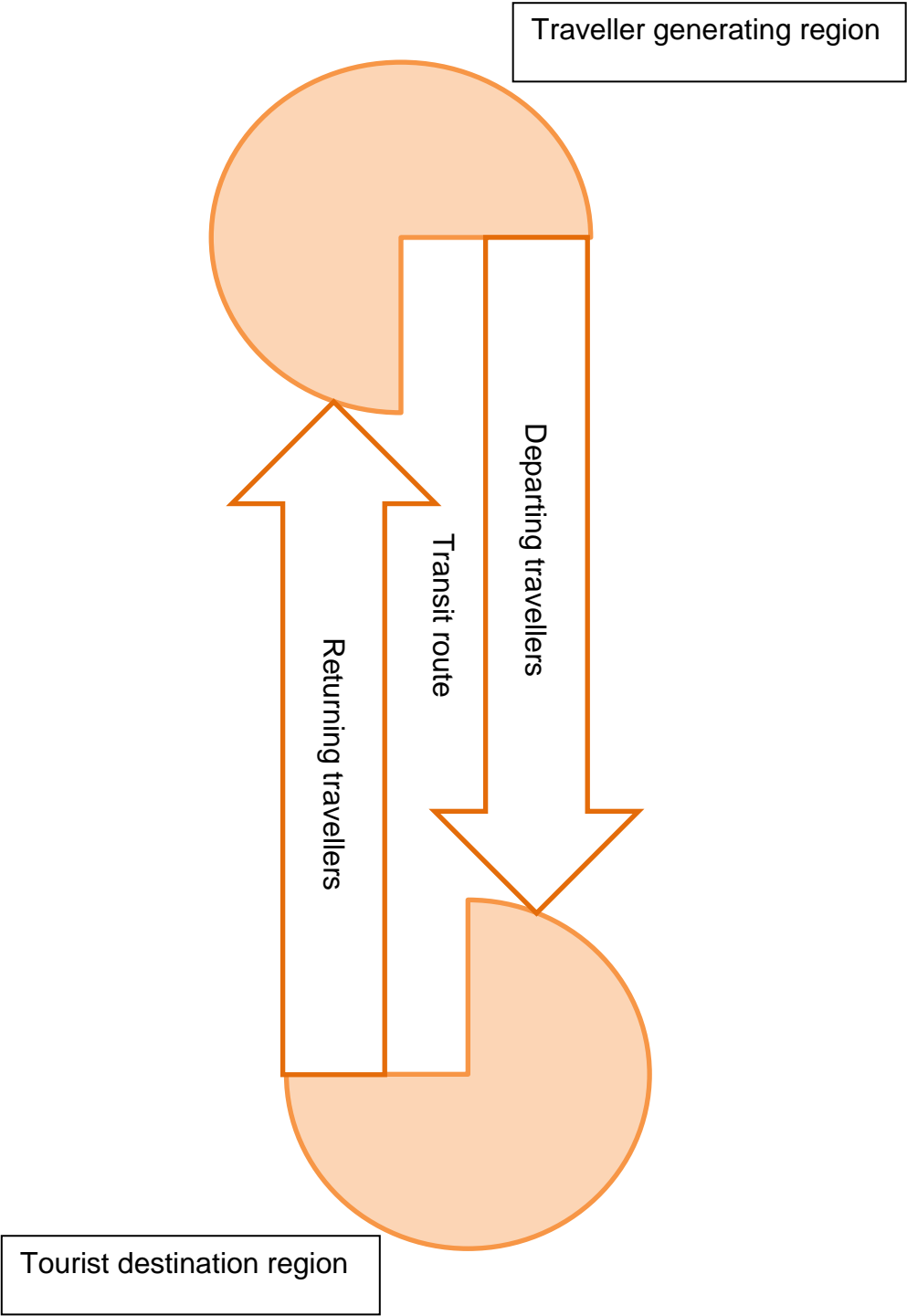
- The pre-purchase phase
During this phase the potential tourist is seeking information on destination attributes, products, experiences, access and costs. Once they have satisfied their need for information, they will make a decision to purchase a tourism offering or not. If they do decide to purchase a tourism offering, they will engage with the providers or intermediaries to secure the offering.
- An on-site experience
The tourists will include travelling to the destination as part of the tourism offering and will evaluate their experiences at the destination, inclusive of the travel experience. During this stage the tourist is experiencing the tourism offering and will seek to fulfill their expectations on which they based their decision to travel.
- A return travel phase
During this phase the tourists embarks on the return journey as part of the tourism offering which they purchased. Although the destination experience is now concluded the tourist still has expectations in terms of the return journey as part of the offering. Tourists will have clear expectations in terms of safety, security and comfort during this phase.
- The extended recall stage.
During this stage the tourists recall their experiences and evaluate the tourism offering in terms of the expectations they had when they purchased the tourism offering. This phase is important in terms of motivations for return travel in the future as well as their ability to market the tourism offering through word-of-mouth. Hall and Williams (2008:15) conclude that the tourism experience is delivered as functionally linked services that influences the tourists' assessment based on a cumulative quality perception.

Different approaches have been used to study tourism including the institutional, product, managerial, social and geographical approaches. These approaches indicate that not one specific discipline can explain the tourism phenomena and that an interdisciplinary approach is needed to comprehend tourism (Bennett, 2000:35). During the 1970's and 1980's academics such as J Fletcher, B Archer and S Wanhill pioneered the use of input-output models in tourism research. The major benefits of these models are that they take every input and output into consideration, at each stage of the supply chain and indicate the multiplier effect of tourism. These models ignore the fact that wages and prices change when tourists spend more, that resources are not limitless and that foreign exchange impacts the outcomes of these models (Blake, 2008:4).

The systems approach has been widely accepted as the preferred approach to study tourism and differs from the reductionist approach that breaks down the system into separate components and then study these components as separate entities disregarding the interrelationships between them (Figure 2.1). The holistic approach focuses on the whole but regards the components as fixed in nature and does not make provision for the study of each component in isolation as part of the whole. The system approach incorporates the thinking behind both of these approaches and enables the study of the components as well as the inter relationship between the components in their entirety (Bennett, 2000:36).

Page (2009:17) confirms that the framework most used by researchers to analyse tourism, is the systems approach that was developed by Leiper (Figure 2.1). He was one of the first researchers to apply the systems approach to tourism and drew on the work done by planners such as Clare Gunn (1972) and geographers such as Ian Matley (1972). According to Hall(2010:3) Leiper defined tourism as: ...”the system involving the discretionary travel and temporary stay of persons away from their natural place of residence for one or more nights, excepting tours made for the primary purpose of earning remuneration from points en route”. The elements of the system are tourists, generating regions, transit routes, destination regions and a tourist industry.

Figure 2.1 The tourism system



Source: Adapted from George, 2007:14

These five elements are arranged in spatial and functional connections. Having the characteristics of an open system, the organization of five elements operates within

broader environments: physical, cultural, social, economic, political, technological with which it interacts.”

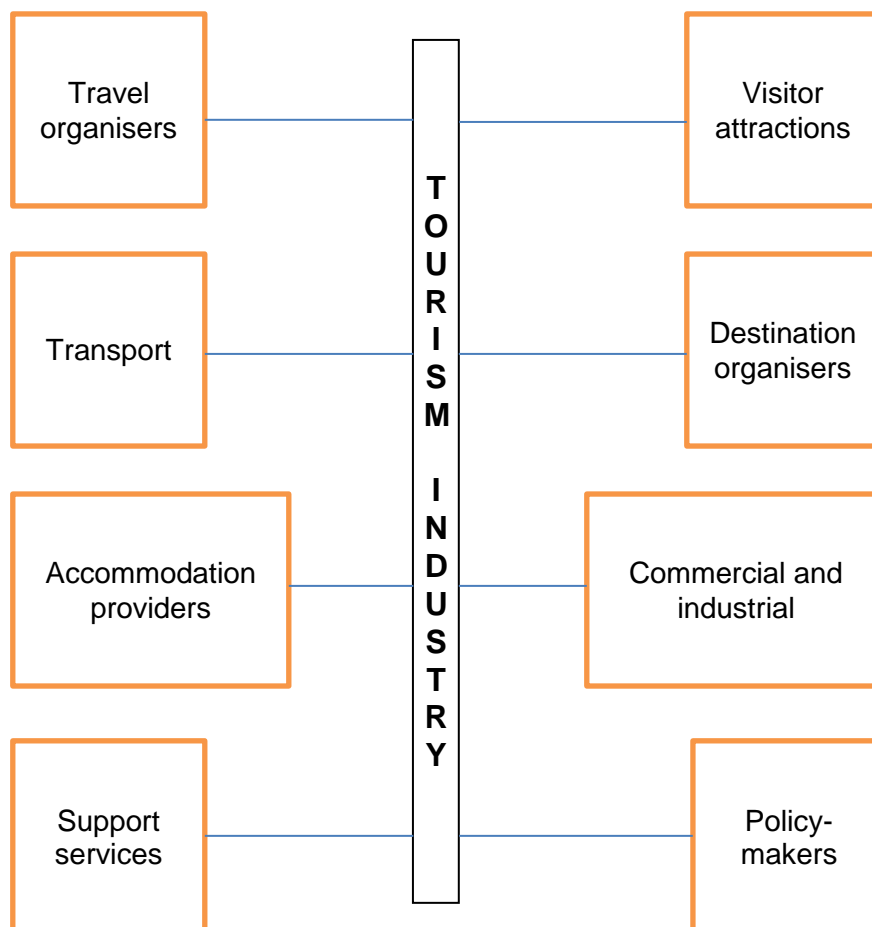
This interpretation is supported by George (2007:13) who defines a system as a group of interrelated, interdependent and interacting elements that collectively form a functional entity. Cooper *et al.* (2008:6) concurs that the tourism system consists mainly of four main components that include the generating or source region where the tourists start their journey from and where they return to, the transit route which is the path or area that the tourists travel across to reach their destination, the destination region which is the area that the tourists choose to visit, and lastly the environments that surround the aforementioned components. Tourists travel through these geographical components and experience different psychological elements that distinguish them from other consumers (Page, 2009:82). Throughout these stages the tourists are gaining information that will influence their decision-making on this trip, as well as their decisions on future trips (Cooper *et al.*, 2008:10). Lamont (2008:5) indicated that according to Leiper it is risky to consider tourism destinations as the most important element in tourism since travelling along tourism routes can be more satisfying than the final destination in itself.

In the 1990's Adams and Parmenter (Blake, 2008:9) applied computable general equilibrium modeling (CGE) to tourism and included the price, wages, resource constraints and currency impacts in one model. These models indicate that there are winners and losers from tourism expansion in contrast to the input output models that only ascribe gains to the winners. Results published in 2008 by A. Wattanakuljarus and I. Coxhead on tourism research in Thailand indicate that increases in tourism makes poorer households worse off and emphasised that there are winners and losers in tourism growth (Blake, 2008:9).

In order to understand these models comprehensively the different role players need to be identified and their interaction with one another understood. In the tourism industry the different role players can be broadly classified into producers of goods and services (supply), and intermediaries that distribute tourism products (linkages) to consumers

(demand) within a specific area (environment) in which tourism operates (Botha *et al.*, 2006:3). The tourism product (Figure 2.2) is a complex product that is composed of different goods and services which are demanded by tourists in the destination. These tourism products are then in turn grouped according to the purpose of travel (Candela & Figini, 2009:12). The producers of goods and services can in turn be grouped into attractions, accommodation, transportation and support services. Attractions range from natural resources to man-made attractions, whilst accommodation includes self-catering and serviced units. The transport component can include the different modes of air, sea, rail and road transport while support services range from private to public sector services (Tassiopoulos, 2008:10).

Figure 2.2 Sectors and sub-sectors of the tourism industry



Source: George, 2007:15

The intermediaries can be grouped into distributors that comprise of tour wholesalers, the geographical distribution system (GDS), destination marketing services (DMS's), direct channels such as call centers and interactive TV. Another form of intermediary is the travel retailer that comprises of the traditional and new online retail travel agent, as well as travel management companies (Botha, Frairer-Wessels & Lubbe, 2006:22).

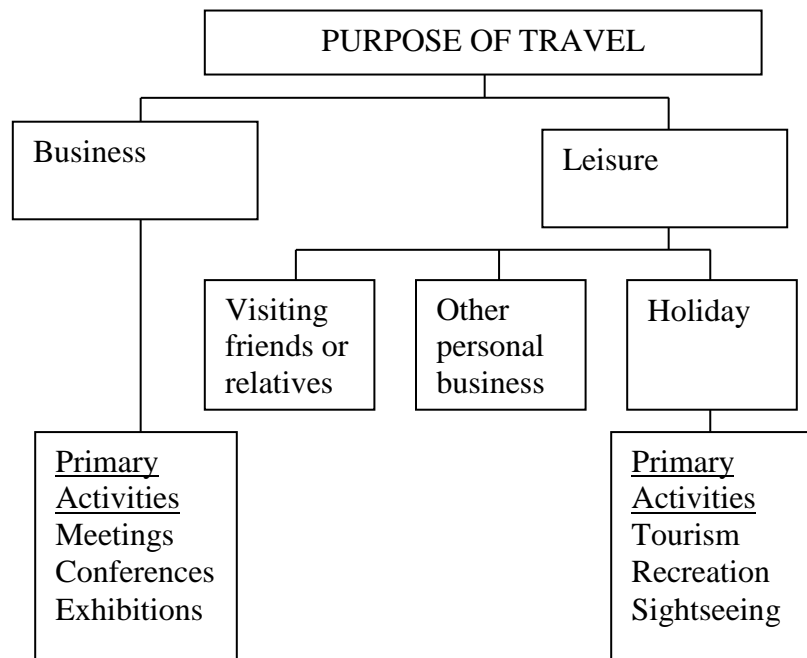
The consumers can be classified according to their purpose of travel and are grouped into two segments, namely business travelers and leisure travelers. Once the decision is made to travel, several other decisions are activated, such as the destination choice, when to travel, the mode of transport, duration of the trip, etc. (Botha *et al.*, 2006:5). All of these role-players operate in specific environments that influence their behavior and decision making processes. These environments include the geographical, economical, psychological, social and cultural environments (Keyser, 2009:253).

2.2 Tourism demand

The demand side consists mainly of the tourism markets and buyers of tourism products and services. The supply is directly affected by tourism demand and determines the composition of the tourism offering as well as the level of demand for such products and services (Tassiopolous, 2008:10). The demand for tourism is derived from the reason for traveling, the destination of choice and the activities tourists engage in (Botha *et al.*, 2006:3).

The demand for travel can be segmented into two broad categories based on the purpose of travel, namely business travel and leisure travel. The business travel components consists mainly of activities such as meetings, conferences, exhibitions and trade whilst leisure travel consists mainly of visiting friends and relatives(VFR market), holiday and leisure activities (Botha *et al.*, 2006:4). This segmentation is depicted in Figure 2.3 and indicates the primary activities associated with business and leisure travel respectively.

Figure 2.3 The purpose of travel



Source: Botha, *et al.*, (2006:4).

Tourism demand can be analysed at the hand of three principles that include the following (Page, 2009:84):

- Effective or actual demand

These are referred to as the number of tourists and can be measured as the number of departing or arriving tourists at a specific destination or origin.

- Suppressed demand

This is the proportion of a population that is unable to travel due to circumstances (lack of disposable income, barriers to access, etc). Suppressed demand can be divided into potential demand, which is known as the potential to be converted into effective demand if the circumstance changes to such an extent that travel becomes possible, and deferred demand that refer to people who could travel but are deterred because of supply side conditions such as terrorism, floods, etc. or due to a lack of information regarding travel opportunities.

- No demand

This is a portion of a market that has no desire to travel and has permanent barriers to travel (e.g. illness, family commitments, etc.) (Keyser, 2009:251; Page, 2009:84).

The above demand principles can be influenced by many factors of which mobility is a major factor. This factor refers to the ability of an individual to move from one location to another. The individual needs to overcome various constraints related to tourism mobility and include the following (Cooper *et al.*, 2008:14):

- Income

Potential travelers need to have disposable income after their basic needs have been fulfilled. The level of income and disposable income will influence the travel choices that are made, e.g. mode of transport, distance traveled, etc.

- Time

The ability of the individual to take time off from paid income time is important as this result in opportunity cost to travel. This will also determine how far and for how long people will be able to travel.

- Political rights

In order to engage in international travel, political rights must be respected in terms of permission to travel from departing countries and receiving countries. These rights are supported by a system of travel regulations, visas and travel documentation.

- Health

The state of health of a potential traveler will determine if they can travel, the areas they may visit, the duration of stay, the activities engaged in at the destination, the kind of accommodation required, etc.

- Information and Education

Travelers need information to enable them to make informed choices and the education levels will improve access to information and improve the potential earnings of individuals.

- Safety and security

The perception of risk associated with travel, will encourage or deter potential travelers to embark on specific journeys or not.

- Family responsibilities

Individuals may want to travel but due to their family responsibilities, such as care-giving, they are prohibited of doing so.

- Legislated holidays

Public holidays are catalysts for tourism activities and countries around the world allocated a different number of days for this purpose. For example in the USA the legislated holidays of Thanksgiving and Christmas are the most significant in terms of the number of people traveling away from their homes.

- Work

The work environment might not encourage people to take holidays and it could harm their careers. The time trade-off between paid time and time off will determine the potential budget available for basic needs and travel, as explained in Figure 2.4.

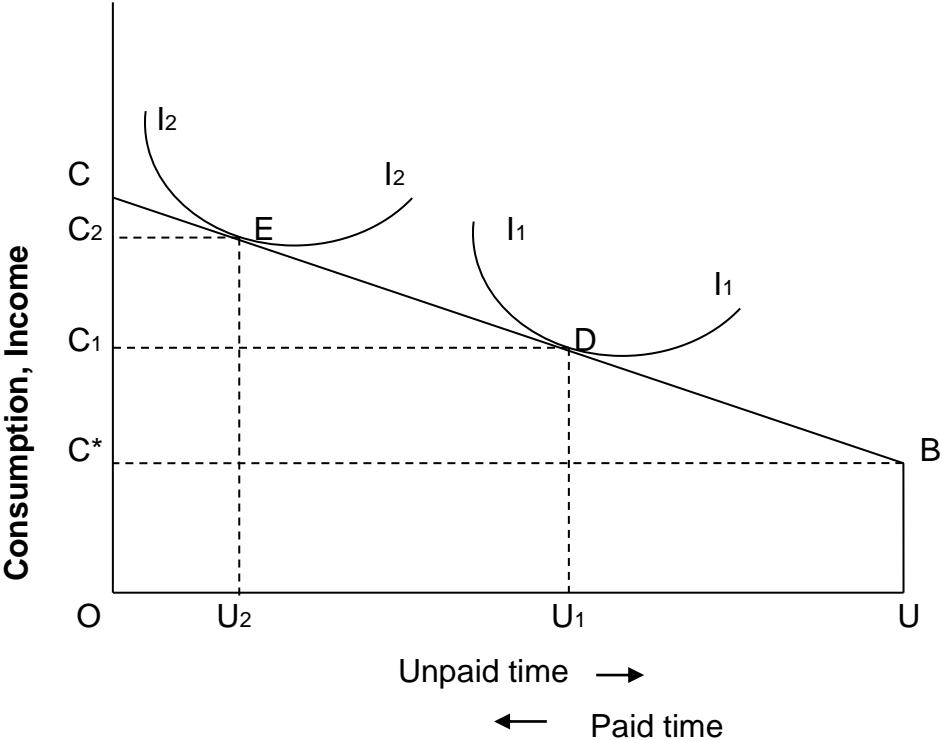
- Culture

Different cultures will influence the way tourism is engaged with in different manners. A critical factor in this regard is the way cultures perceive tourism as non-essential or essential behavior in their communities (Cooper *et al.*, 2008:15; Seaton & Bennett, 1996:13).

The above factors will influence the way in which tourism is supported or engaged with and lends itself to different combinations of consumption and reduction in income generating time (Hall *et al.*, 2008:3). Consumers face the problem of limited time available for leisure and work and need to decide how much income generating time will be sacrificed for leisure time. This trade off can be seen as the opportunity cost of leisure time in an attempt to maximize the consumers' satisfaction for leisure (Tribe, 2005:70).

Hall *et al.*, (2008:3) ascribe the pervasive innovation in tourism to internal (tourism) factors such as the increase in disposable income, more non-work time and changing consumption patterns. External factors such as the expansion of market-driven economies to previously socialist governed countries has also influenced the demand for tourism by unleashing a growing ,more affluent middle and worker class in these countries. The optimal choice in tourism demand can be analysed at the hand of peoples' preferences and their expenditure budgets and how this influences their demand for tourism. The individuals' budget is available to be spent on tourism and other goods and services.

Figure 2.4 The effect on tourism consumption by the trade-off decisions between paid and unpaid time.



Source: Stabler, Papatheodorou & Sinclair, 2010:25.

The size of the budget will be determined by the hours spend in a paid work time period, the income per time period and the rate of taxation on income. The net result will deliver disposable income that can be utilized for purchasing goods and services. People have

to trade off the number of time units they want to spend in unpaid activities against those that yield an income (Stabler *et al.*, 2010:24).

This is supported by Tribe (2010:77) who suggests that people have to choose if they will devote their limited time to leisure or work and relates the cost of leisure time to the opportunity cost associated with giving up income generating work time in order to have leisure time. Figure 2.4 depicts this trade off and explains the relationship between consumption, paid work and unpaid time.

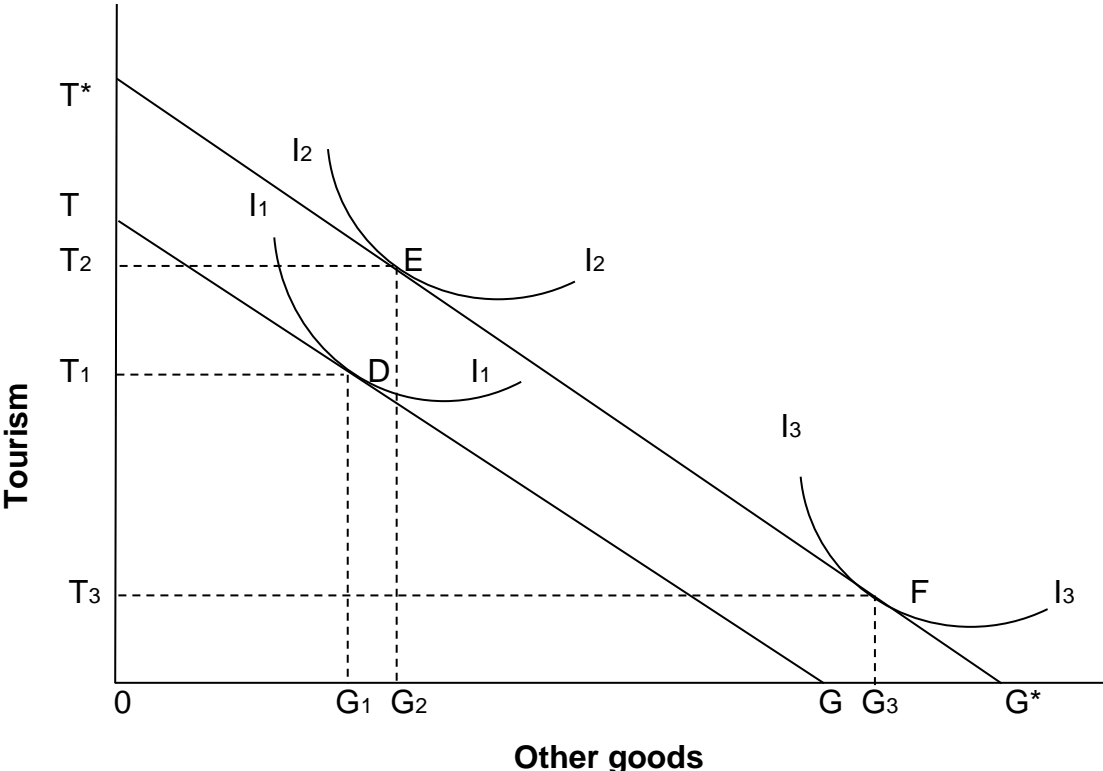
The vertical axis in Figure 2.4 represents consumption or income whilst the horizontal axis represents unpaid time if it is read from left to right and paid time if read from right to left. Line CBU represents the different combinations between consumption and unpaid time; one may have and is also known as the budget line. Point B to U represents the level of consumption by an individual who is unemployed but still receives some social benefits. Point C represents the highest consumption that can be achieved by spending the maximum time on paid work.

The individual can now trade-off a portion of consumption against unpaid time and these preferred combinations for different individuals are depicted by the indifference curves $I_2 I_2$ and $I_1 I_1$. For a consumer with an indifference curve $I_1 I_1$ the optimal point of satisfaction along the budget line CB would be at point D with a combination of consumption at OC_1 and unpaid time at OU_1 . A different individual could prefer a different combination of these variables and the indifference curve could be depicted by $I_2 I_2$ with an optimal point of satisfaction at point E. This person would consume at a higher level at OC_2 with a lower value of unpaid time at OU_2 .

The above scenario assumes a certain fixed level of income in calculating the individual indifference curves. If the income level would increase, two possible effects can be expected on the demand for leisure time. The increase in income would mean a greater opportunity cost for leisure time and consumers might reduce their leisure time.

This effect is known as the substitution effect. The second effect can be that of an increase in leisure activities as a result of increased income and spending power. This is known as the income effect (Tribe, 2005:71). This effect is illustrated in Figure 2.5 and depicts the effects of a rise in income on tourism consumption.

Figure 2.5 The income effect on tourism consumption



Source: Stabler *et al.*, 2010:30)

The demand for tourism goods will rise if an increase in income is experienced. This is only true if the tourism goods are considered to be normal or superior goods that are positively related to a rise in income (Tribe, 2005:46; Tribe, 2010:71). There are cases where the demand for tourism goods decline as a result of an increase in income. In this case the tourism goods that experience the decline can be seen as inferior goods and the consumer demands other tourism goods that are considered to be superior tourism goods. This is evident in the rapid growth of the middle class in South Africa of which 9,3 million (2007) are black people (SA Good News, 2010a:1).

In Figure 2.5 the vertical axis measures tourism and the horizontal axis measures other goods. The original income curve or budget line is depicted as line TG. At this income level the consumer with an indifference curve of I_1I_1 will consume optimally at point D with tourism consumption at OT_1 and other goods at OG_1 . If all prices remain constant, an increase in income will result in the income line TG moving parallel to the new consumption line T^*G^* .

A new indifference curve I_2I_2 with an optimal consumption point at E will be expressed by the consumer. Tourism goods will be consumed at level OT_2 and other goods at level OG_2 if the tourism goods are normal goods. If the tourism goods are inferior goods then an indifference curve of I_3I_3 will be preferred by the consumer. This preference is depicted by the movement of the optimum consumption point E to point F, along the income curve T^*G^* . This will result in a decline in the consumption of tourism goods, from level OT_2 to OT_3 , and an increase in consumption of other goods, from level OG_2 to OG_3 with the optimal consumption point indicated by point F on the indifference curve (Stabler *et al.*, 2010:30).

Another factor that influences the demand for tourism goods is price and the responsiveness of demand to a change in price. This responsiveness is known as the price elasticity of demand and is calculated by dividing the percentage change in quantity demanded by the percentage change in price. The following elasticities of demand can be observed:

- Perfectly inelastic

In this case demand is unresponsive to a change in price. It can be that the tourism product is a necessity or the only product available.

- Inelastic

Demand changes by a smaller proportion than price. It can be that the specific tourism product forms a small percentage of the tourism spend or that the product is highly sort after.

- Unit elasticity

The demand changes by the same proportion as price. This is normally in a situation with lots of competition and consumers aware of alternative products.

- Elastic

Demand changes by a larger proportion than price which Page (2009:482) ascribes to the nature of tourists and their lack of loyalty to a destination.

- Perfectly elastic

Any increase in price will have demand drop to zero and the specific product forfeited or replaced by another. In this case the consumer might not have any additional funds available to sustain the demand and the product might not be divisible in smaller

These price elasticities of demand are influenced by many factors of which the following are the main factors according to Tribe (2005:74):

- Necessity of goods and service
- Number of substitutes
- Addictiveness
- Price and usefulness
- Time period
- Consumer awareness

These main factors can individually or collectively influence the price elasticity of demand for tourism products and the composition of the total tourism product must take cognisance of how the contributing components of the final product, influence the overall price elasticity of demand (Tribe, 2005:78). In a study conducted by Nicolau and Mass on the micro segmentation of individual tastes on attributes of tourism destinations, price and distance were two attributes that were analysed. They found that in the process of segmenting the market according to these attributes, four market segments emerged.

All four groups were clearly adverse to higher prices to different degrees (elasticities), whilst one of the groups indicated a preference for longer journeys. This confirms the theory that the journey in itself can also contribute to the positive utility derived from the tourism activity (Liu, 2006:116). Price remains a negative factor in deriving utility from the tourism activity but is seldom calculated in its totality before a journey is embarked upon due to a lack of information. Another important factor that influences demand is the influence of income elasticity of demand for tourism goods. Income elasticity of demand measures the responsiveness of demand to a change in income and can be calculated by dividing the percentage change in quantity demanded by the percentage change in income (Tribe, 2005:78). This is relevant to the goals of BEE as the growth in the black middle class lends itself to growth in demand emanating from the domestic market.

In order to determine if tourism products are substitutes, complements or unrelated, one needs to examine the cross-price elasticity of demand for tourism products. The cross-price elasticity of demand for tourism products can be calculated by dividing the percentage change in quantity demanded of good A by the percentage change in price of good B. Substitute goods have a positive cross-price elasticity of demand and an increase in the price of good A will result in a positive growth in demand for good B. Complementary goods have a negative cross-price elasticity of demand and an increase in the price of one of these goods will have a negative impact on the demand for the rest of the goods (Stabler *et al.*, 2010:29). If a price change of a good has no impact on the demand for other goods then it is considered an unrelated good with a cross-price elasticity of demand of zero (Tribe, 2005:79).

The future of tourism demand will be shaped by many factors including those outside of tourism. The world economic crisis (2008-2010) has negatively influenced the demand for tourism goods and positive tourism growth can be expected when world economic growth improves. Before the world economic crisis, large scale growth has emerged from the Chinese outbound market and it is expected that China will become a major outbound market by 2020 (Page, 2009:112). The following consumer trends have been

identified by Page (2009:112) as factors that will shape the quality and nature of future tourism demand:

- Consumers will have high expectations of quality irrespective of the price.
- Consumers derive satisfaction from the tourism product as well as the purchase process and therefore the purchase process must meet raised expectations.
- Consumers utilize electronic media to inform themselves of the various tourism products available and therefore require more value add in the purchasing process than before.
- Consumers seek products that address their specific needs and are not satisfied with generalized products that are not consumer specific.
- The tourism industry will have to provide for more discerning tourists that have time-poor and cash-rich lifestyles that demand stress free products with ease of consumption being the new trend.
- Tourism providers will have to compile and market their products through market segmentation, target marketing and tailor-made techniques.
- Low cost, mass products aimed at independent price sensitive consumers, will continue as a specific niche market.
- Branding and advertising will continue to be used to influence consumers on market position, consumer benefits and the promise of tourism offerings.
- Product offerings will be designed to meet individualized aspects of demand (e.g. health and wellness) and focus on niche market development

In conclusion, tourism demand will consist of decisions that consumers make based on their own needs and requirements whilst external factors will influence these decisions. The demand composition that consists of the mix and character of the potential customers; the size of the demand in terms of the number of trips and spending power; as well as the growth rate of demand are critical factors that will influence supply decisions and future developments in tourism (Tassiopolous, 2008:103). Future demand will emanate from the BRICS (Brazil, Russia, India, China and South Africa) countries as well as regional African source markets for South Africa (Department of Tourism, 2010:3). Disposable income in these countries is on the rise and therefore the demand for tourism and travel are also increasing.

2.3 Tourism supply

Tassiopolous (2008:10) describes tourism as a service sector with a complex product as it has a particularly fragmented supply due to the fact that each link in the supply chain contributes to the final product. Due to this fact of the tourism product being an amalgam of suppliers, destinations depend on the delivery of each role player to determine the success or failure as a destination. The combination of these supply components creates an opportunity to introduce the tourist to the unique characteristics of a destination and collectively creates the tourism product (Botha *et al.*, 2006:6).

Figure 2.6 depicts the main components of tourism supply but does not indicate the inter-relationship between them, or the distribution networks in the industry. The tourism product can be viewed as an economic transaction that is based on exchange. In tourism this exchange takes place at the destination that has a specific combination of socio-political, environmental, economic and technological environments. Tourism lends itself to being evaluated as services marketing rather than physical goods and acknowledges the value of intangible goods. This approach acknowledges the important role of the consumer as a co-producer of the tourism experience and that the interaction with the tourist is a continuous process. Another approach is to view the tourism product as an amalgam of destination elements that are supplied by different entities (Cooper *et al.*, 2008:28). The challenge with such an amalgam is to ensure the delivery of the desired quality levels throughout the experience although different suppliers of attractions, amenities, access and ancillary services (Tassiopoulos, 2008:10) deliver the total product. The tourism product can be described at the hand of the following three key dimensions (Seaton *et al.*, 1996:121):

- The core product
This is the basic need function served by the product and is driven by the motivation to travel. An example would be the purchasing of a beach holiday to satisfy your leisure needs.
- The tangible product
This product refers to the specific features within a product offering and in the above example it could consist of the accommodation in close proximity to the beach, a view of the beach and access to the beach.

- The augmented product

This product includes the add-ons to the core product and in the above example could include themed evening entertainment, shopping facilities and local cuisine.

Successful tourism destinations succeed in delivering on the expectations of tourists and continuously strive to exceed these expectations. This objective can only be achieved if all role players effectively and efficiently contribute to delivering the tourism product/service. Tassiopoulos (2008:10) concludes that the tourism destination is the main place of consumption of tourist services and therefore the tourists identify the product with the business providing the service as well as the destination visited.

Figure: 2.6 Tourism supply components

<p>ATTRACTIONS</p> <p><i>Natural:</i> National parks, Provincial parks, Private reserves, Beaches, Mountain areas, etc.</p> <p><i>Man-made:</i> Sun City and casinos, V&A waterfront, etc.</p> <p><i>Sociocultural:</i> Gold Reef City, Open mine museums, Soweto, etc.</p>	<p>TRANSPORTATION</p> <p>Air transport Sea transport Rail transport Road transport</p>	<p>HOSPITALITY</p> <p><u>Accommodation</u> <i>Serviced:</i> Hotels Game lodges Guest houses, etc.</p> <p><i>Self-catering:</i> Apartments Rooms Caravan parks Holiday resorts, etc</p> <p><u>Food services</u> Restaurants Catering services</p> <p><u>Entertainment</u> All art forms</p>
	<p>SUPPORT SERVICES</p> <p><i>Private sector:</i> Guides, Catering services, Financial services, Travel media, Private education, Arts and crafts, etc.</p> <p><i>Public sector:</i> South African Tourism, Regional Tourism Organisations, Local Tourism Bureaus, Public Education System, etc.</p>	

Source: Adapted from Tassiopoulos, 2008:10

The influence of price changes on the provision of supply is an important factor in controlling the supply of products and the ability to adapt the supply accordingly. This is

known as the price elasticity of supply and can be expressed as the percentage change in quantity supplied, divided by the change in price.

Inelastic supply implies that the supply of tourism products cannot be easily adapted or changed in reaction to changes in price. The supply will change in a smaller proportion than the change in price. An elastic supply refers to the ability to be more flexible in adapting supply in reaction to changes in price. A perfectly inelastic supply refers to the fact that supply is unresponsive to a change in price. Unit elasticity refers to the changes in supply that change in the same proportion as the change in price. In situations where suppliers can supply any amount at the current price but none if price falls, it is known as a perfectly elastic market (Tribe, 2005:90).

Tribe (2005:91) argues that the main factors that influence price elasticity of supply are the following:

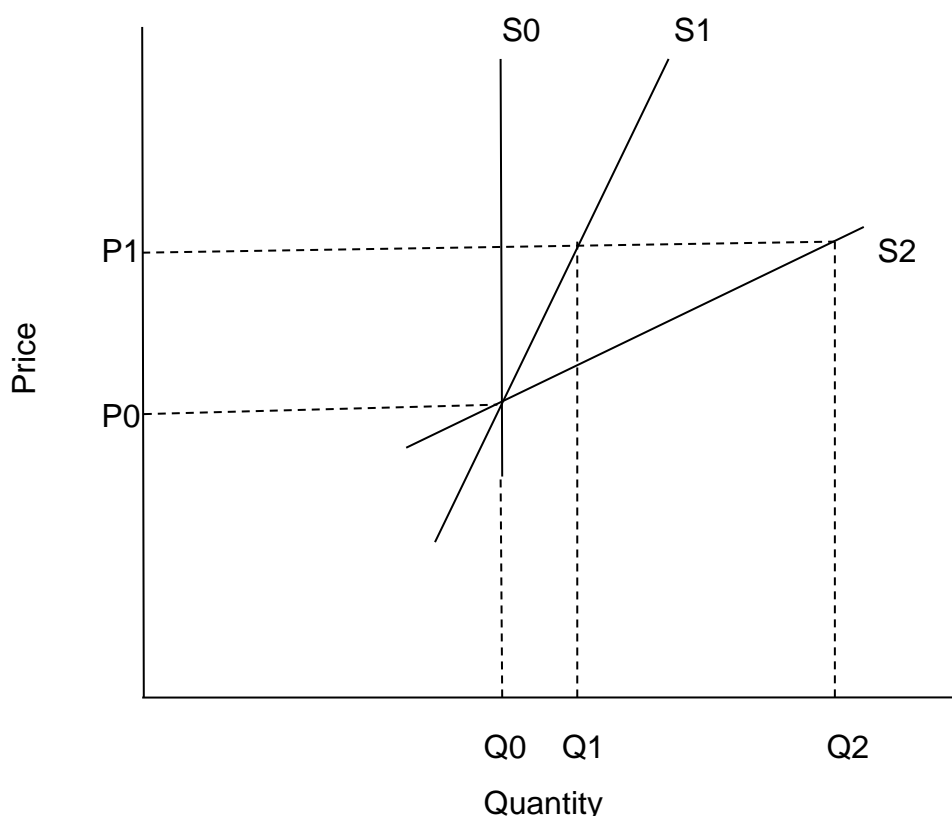
- Availability of stock
- Spare capacity
- Flexibility of capacity/ resource mobility
- The time period

In the production of normal goods the producer can manipulate the quantities released to the market by stock piling goods until they are needed. In the production of tourism goods such as hotel rooms, the short term adaptation is limited and the nature of supply therefore inelastic. This poses a major problem for new entrants to the market as they will have to invest in fixed capacity that will initially generate spare capacity until their products or services are known to the buyers and the subsequent demand for the product increases. This can be one of the major constraints to expedite BEE in the tourism sector as large fixed capacity funding will be needed to create the necessary supply to compete with other suppliers in the tourism sector.

Spare capacity can be utilised as an instrument to increase supply elasticity if the production units can be increased for example laying on another flight or route by using

aircraft that are idle or spare air craft. A high flexibility of capacity will enable the producer to minimize spare or over supply of capacity and increase the elasticity of supply in the short run. Adding another coach to a train or expanding conference facilities by removing sliding walls are all examples of how capacity can be manipulated in the short run. The importance of the time period under consideration is illustrated in Figure 2.7 and indicates the influence on the elasticity of supply.

Figure 2.7 Time period and elasticity of supply



Source: Tribe, (2005:91).

In Figure 2.7 it can be seen that a price change from P0 to P1 will have no effect, in the immediate term, on the movement of quantity (supply) that remains at Q0. If time lapse and the price remain at P1, the supply can in some cases be adapted to supply line S1 and a small change in quantity from Q0 to Q1.

In the long run, fixed production factors can be changed and the supply line S2, representing new capacity, created. In this case the supply is more elastic and a price change from P0 to P1 will have a significant effect on quantity from Q0 to Q2. In the airline industry capacity cannot be expanded in the immediate time scale (inelastic supply) but additional planes can be bought or leased in the long term to increase supply (elastic supply) (Tribe, 2005:91). This is one of the constraints of expanding BEE in tourism in South Africa as business growth does not necessarily equate to new venture or job creation since spare capacity absorbs this growth. Therefore significant growth is needed to ensure that opportunities for BEE can be extended to previously disadvantaged groups.

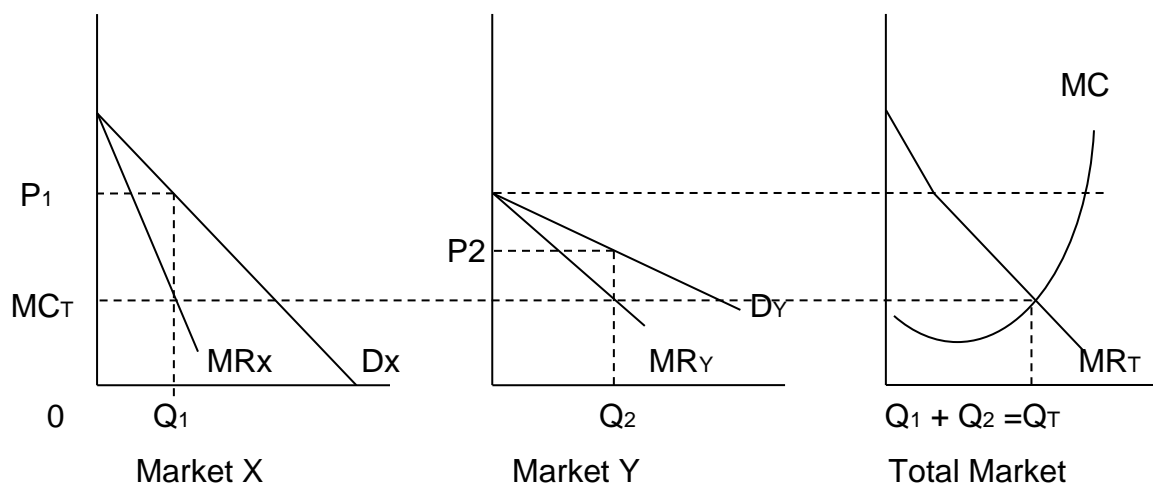
In order to overcome these challenges of low elasticity of supply, producers of tourism goods deploy price discrimination and product differentiation techniques to minimize the consumer surplus. Price discrimination is based on the fact that many consumers whom purchase tourism goods and products are prepared to pay more than the current price, and this extra value is known as the consumer surplus.

The theory holds that if the producer can determine the consumer surplus for each consumer, then he can ask each consumer the maximum price (reservation price) that they are prepared to pay for the goods or services and diminish their consumer surplus without reducing the demand. In such an extreme case it will be labeled as perfect price discrimination with individualized pricing that lead to no consumer surpluses to any of the individuals. The producer will gain increased profits in this manner if the price at which the additional products are sold are greater than cost. In practice consumers are grouped as users with a similar reservation price range and prices offered to these groups or categories of consumers.

The producer can apply price discrimination where there are distinct price elasticities of demand for different consumers and higher prices charged for those with inelastic demand whilst those with more elastic demand can be charged lower prices. The producer endeavours to divide the total number of units produced, to different consumer groups so that the marginal revenues for each group, is equal (Stabler *et al.*, 2010:111).

This will determine the different prices charged for different consumer groups and maximize the profits for the producer. The application of price discrimination to consumers with different price elasticities for demand is depicted in Figure 2.8. In market X consumers have an inelastic demand and there is a less than proportional response in demand compared to the change in price. In this market the consumers' demand is depicted in the average revenue curve D_x with MR_x indicating the marginal revenue curve. The difference between MR_x and D_x curves indicate the extra income the producer receives by selling an additional unit.

Figure 2.8 Price discrimination applied to consumers with different elasticities in demand.



Source: Stabler *et al.*, (2010:111).

In market Y the consumers express a more elastic demand than in market X and a change in price will have a bigger effect on the quantity demanded. In this case the average revenue curve D_Y and the marginal revenue curve MR_Y depicts a flatter angle representing a more elastic demand (Stabler *et al.*, 2010:112). The total market comprise of markets X and Y and the marginal revenue curve for the total market indicated by line MR_T . The marginal cost incurred in producing the additional unit is depicted by the marginal cost curve MC in the figure depicting the total market. In this

manner different prices and products can be offered to encourage black consumers to purchase tourism goods that would normally be out of reach for domestic consumers if prices are charged according to the prices that international visitors are prepared to pay.

Another important factor in tourism supply is the regulation of international aviation. In 1919 at the Paris convention the principle of states having sovereign rights over their territory, was established. From this followed bilateral agreements between countries that governed the rights of airlines to fly over countries and to operate into and out of countries. This was followed up by the Chicago convention in 1944 that led to multilateral agreements on:

- Exchange of air traffic rights (freedoms of the air)
- Control of fares and freight tariffs
- Control of frequencies and capacity

The establishment of the International Civil Aviation Organisation (ICAO) emanated from the Chicago Convention. The aim of this organization was to act as an inter-governmental forum where major aviation issues were discussed. In 1945 a rival organization, International Air Transport Association (IATA) that represented the interests of airlines, was established (Page, 2009: 225).

Airlines use bilateral agreements on the basis of reciprocity between different countries and pool agreements that share the market between two countries. If the size of this pool is not sufficient to sustain the operation of two airlines, a revenue cost pool may be established. In this case the one airline operates the routes on behalf of the pool partner. Airlines may also enter into inter airline royalty programmes where an airline wish to pick up 5th freedom passengers in a country where they do not have such rights. By paying royalties to the airline of the country where they wish to pick up these passengers, they can obtain these 5th freedom rights (Page, 2009:226). The 7 air transport freedom rights are the following:

- First freedom: the right of transit without landing (flying over a country without landing)
- Second freedom: the right of a technical stop in a country (re-fuel) without taking in or off-loading passengers
- Third freedom: the right to set down passengers from the airlines home state(country)
- Fourth freedom: the right to pick up traffic bound for a home state (country)
- Fifth freedom: the right to pick up and put down traffic between two foreign countries as an extension of routes to and from a home state
- Sixth freedom: the unofficial right to pick up and put down traffic between foreign states, via the home state
- Seventh freedom: the right to pick up and put down traffic between two foreign states.

The last decade has seen significant changes in this regulated environment with deregulation of more than 50 % of the worlds' airline traffic today. Hub and spoke operating models have been deployed to establish airport hubs from where airlines operate trunk routes with sufficient yields and capacity, whilst the feeder routes bring passengers to these hubs (Page, 2009:229). Another development that has taken place on the supply side is the emergence of integration between organizations. There are three kinds of integration that can occur between organizations:

- Vertical integration

This kind of integration takes place between organizations that produce different types of output for example an airline (TUfly.com), a tour operator (TUI) and hotels (Nordotel).

- Horizontal integration

When organizations that supply the same type of output integrate their activities, then it is known as horizontal integration. An example of such integration includes the Hong Kong based group, Hong Kong and Shanghai Hotels as well as the American, Sheraton chain of hotels.

- Conglomerate integration

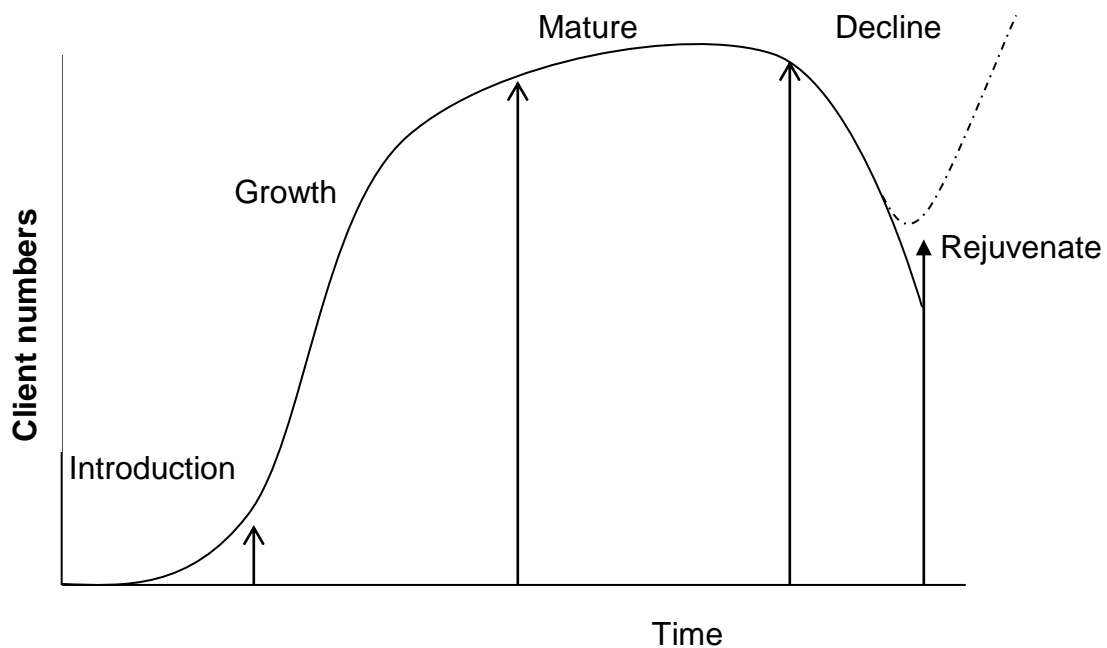
This integration refers to economic linkages between organizations producing different types of products in different production lines, such as TUI's involvement in the container shipping business (Stabler *et al.*, 2010:115).

The product life cycle is another factor to consider when the supply of tourism products and services are analysed. Destinations and tourism products experience different stages of development over time and these different stages has specific characteristics that demand specific actions in terms of tourism marketing and development. Figure 2.9 depicts these different stages that include the phases of introduction, growth, maturity and decline, with the option to rejuvenate and start the cycle all over again.

During the introduction phase, potential tourists are introduced to the product/destination as a new experience, both in terms of the product being newly developed or the client market being newly introduced to an existing product or destination. This phase is characterised by high media awareness and large by-inn from the local population (George, 2007:66). The introduction stage is followed by the growth stage when word – of –mouth is generating new clients and client numbers are rapidly increasing. Repeat visitors and new clients ensure that there is a continuous growth in demand for the product or destination. The growth phase is followed by the maturity phase that is characterized by profits and visitor numbers reaching a plateau. During this stage the destination or product needs to re-invent itself to compete with new entrants and competitors whilst replacement and maintenance costs are increasing.

This stage is followed by the decline stage when the client numbers and revenue are rapidly declining and the destination or product is faced with closing down or re-inventing, and re-launching itself. If the latter is decided then the rejuvenating phase is entered into and the whole cycle repeated.

Figure 2.9 Product Life Cycle



Source: adapted from George (2007:65).

In conclusion, tourism supply has seen some important economic changes in terms of regulation, integration or consolidation, and new technology in the last decade. The challenge in this competitive environment with spiraling costs is to influence the decision making process of the consumer in such a manner that your objectives are met. To this extent the distribution of information and product to the potential tourists have been a key development and e-commerce organizations continue to challenge the ways in which consumers purchase tourism goods (Page, 2009:152).

2.4 Tourism distribution system

A component of the tourism system is the link between supply and demand. The challenge is to bridge the gap between the production point (supply) and the point of consumption (demand) by utilizing the distribution channel or system (Keyser, 2009:21). The physical linking of the tourist to the product depends on transport whilst the

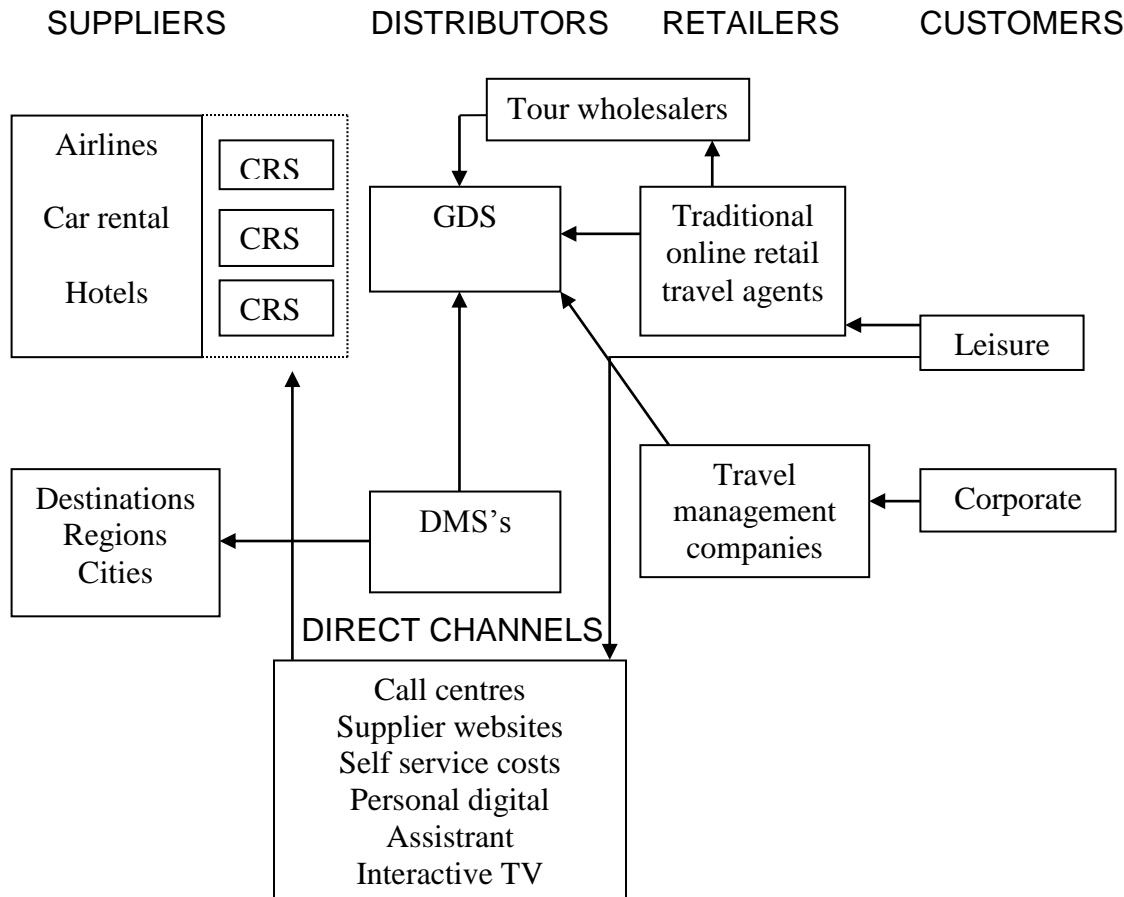
accessibility of a destination also depends on the tasks tourists need to complete before such a journey is undertaken. These tasks or activities performed are known as engaging with the tourism distribution system and Botha *et al.*, (2006:18) describes it as the process that makes the supply side of tourism available and accessible to the demand side.

The distribution system consists of mainly four components, namely the suppliers of tourism services and products, the distribution system that provides information and links supply and demand, the travel intermediaries that use the information to package and sell tourism products and services, and lastly the customer or tourism user. Due to the fact that tourism is an intangible product, information is the only measure on which tourists can base their decisions prior to experiencing the product. Access to this information can be supplied directly between producer and consumer and is known as direct distribution, whilst information can be channeled to consumers via other entities, known as intermediaries. This kind of distribution is known as indirect distribution (Keyser, 2009:212).

The current model for travel distribution has changed significantly since the introduction of the internet and the increased access to information. Figure 2.10 “The current tourism distribution model” depicts the current model for travel distribution and the role intermediaries play in this model. Tour operators contract with suppliers of tourism products whilst in turn they contract suppliers of goods and services that make it possible to deliver a tourism service or goods (Page, 2009:129).

Potential tourists are not located at the destination and information about the destination and its products will have to be made available to them. The tourism distribution system consists of three key role players, namely the consumer, the producer and the intermediaries. The producer can communicate directly with the consumer as part of the direct distribution process and via intermediaries as part of the indirect distribution process (Keyser, 2009:212).

Figure 2.10 The tourism distribution model



Source: Botha *et al.*, (2008:22).

2.4.1 Tour operator

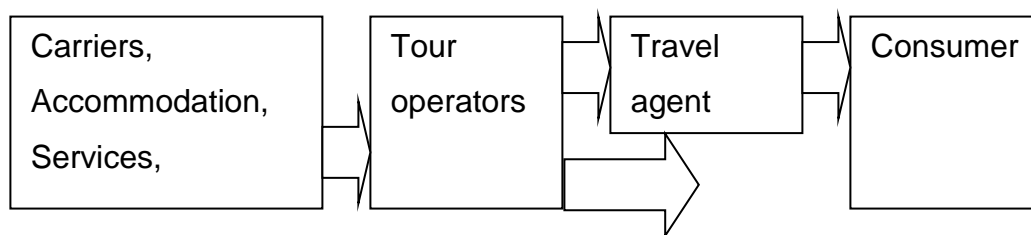
In the traditional role (before internet) tour operators diminished transaction costs by:

- Facilitating tight coordination among several components of the package tour
- Reducing search costs of potential tourist, and
- Providing credible information on the quality of the tourism product

Pro poor tourism deems tour operators as the entities that will determine the nature of tourism development and how this development will impact on poor people and how pro poor tourism strategies will be implemented in developing countries (Pro-Poor tourism Partnership, 2004:1). They define tour operators as businesses that combine travel services as one product and sell them to travel agencies or directly to consumers. The

package sold to the customer is the “package tour”. Due to bulk buying and economies of scale, they can reduce the price that individual buyers would be able to generate. The distribution of these packages can be directly to the consumer via the internet or direct sell, or via an intermediary (travel agent) that sell the package as a commissionable product. Figure 2.11 depicts the distribution chain in tourism and the role tour operators play in this process.

Fig 2.11 The tour operator in the tourism distribution system.



Source: Adapted from Pro-Poor Tourism Partnership, (2004:1).

The Electronic Business Survey on South African tour operators found that the South African tourism industry is characterized by a predominance of SMME’s with established firms largely white-owned and emerging small firms black-owned (Verhoest , James, Marais & Audenhove , 2006:1). Corrective black economic empowerment strategies have been introduced but the lack of concrete databases and paucity of data on tourism SMME’s means that little information is available to assist decision-making in business or in policy development by government (Verhoest *et al.*, 2006:1).

The business functions of the tour operator can include tour preparation, tour marketing and tour administration (Bennett, 2000:62-64).

Tour preparation can consist of:

- Researching the needs of the market, surveying travel agents, studying tourism policies and competitive studies.
- Conduct familiarization tours to evaluate destination or products, seek suppliers and government support
- Prepare detailed tour packages as well as the necessary agreements and commitments of all parties.

Tour marketing may consist of:

- Design brochures and distribution to potential clients or travel agencies
- Media advertising focusing on the travel trade (strong factual information) and consumers (strong emotional appeal factors).
- Personal selling aimed at final customers or other intermediaries

Tour administration may include:

- Design of detailed tour packages and schedules
- Administer a service delivery system of client interaction, financial transactions and supplier performance.

Stabler *et al.*, (2010:175) argues that tour operators assemble mainly packaged holidays for the mass market and facilitate the link between suppliers of travel goods, accommodation, facilities and services (both in origins and destinations) and the tourists. They procure the components of the package and retail it through the travel agents or directly to the tourists (consumer). Tour operators in the UK and USA markets are characterized by mainly large players. Although there were approximately 1,500 tour operators in early 1990's in the USA, 40 of these controlled almost a third of the market. This number grew to 2,350 tour operators in the USA in 2009 and the market dominated by 46 tour operators that accounted for a sales volume of over \$9 billion in 2008. In the UK the top ten tour operators were responsible for 60% of the market share in 2007 whilst the top four accounted for 46% of this share (Stabler *et al.*, 2010:176). In addition to this concentration of business, the industry is also prone to vertical integration. It has been estimated that tour operators that were in existence in the 1970's, only a third were still in existence in the mid to late 1980's. Even with this fall-out rate, the number of tour operators remains high in Europe and the USA.

Tour operating is very sensitive to market conditions such as variations in demand, seasonality, exchange rates, economic recessions, political instability and terrorism. The bigger companies can achieve substantial economies of scale and scope through operating efficiencies. The smaller tour operators can enjoy relative high returns on fixed investments if the fixed investments remain low. The average profit margin in

Europe is estimated (2009) at about 2% of total turnover and worldwide factors such as the slow recovery of the economy and fierce competition drive these margins even further down.

In order to increase sales volume, tour operators discount packages at the launch of the following seasons' packages as well as at the end of the season. Due to the fact that consumers are aware of possible discounted rates at the end of the season, they delay their bookings to the last minute which restricts the cash flow of the tour operators. The introduction of direct booking facilities with tourism suppliers, low cost airlines and better informed tourists, has resulted in new competition from consumers themselves. These factors as well as the ease of entry and exit, contribute to a highly competitive environment for tour operators in the UK and many other countries (Stabler *et al.*, 2010:178).

There are two structural features that are key to the tour operators' environment. The first is the role of entry and exit conditions for tour operators and the second the implications of market concentration. The high number of tour operators is evident of the low barriers to entry. This is due to the low capital costs needed to start a tour operating business. Tourists want to know that the advance payments that they make, will be secure and deliver their tourism experience as promised, in the future. Unintentional barriers may have been created by new organizations by contracting or franchising with the most popular sites, hotels, transport providers, etc. As the organization grows over time, they might enjoy economies of scale and scope and unknowingly create entry barriers to new start-ups. Strategic barriers may be created consciously to deter new firms from entering the market. These include the adoption of limited prices, predatory pricing, differentiated products, counteractive advertising campaigns, etc. In some cases spare capacity can be carried to flood the market with products at low prices when new entrants want to enter the market. This cost of spare capacity as well as the threat of a price war may be sufficient to deter new entrants to your market. Vertical integration is also costly in terms of sunk costs that cannot be recovered in the short run and act as a deterrent for entry and exit of this market.

In practice tour operators seldom pursue these strategies and rather focus on increasing market share knowing that they cannot control the total market. This is evident in the UK market where a few big operators dominate the market despite the entry of many small operators in the total market. This highlights the fact that not all sectors have the same level of entry or exit barriers and that specific niche markets will display different barriers or requirements. Market concentration is on the increase and bodies such as the European Commission have changed their opposition to this by approving the merger of TUI and First Choice in 2007. This change of opinion is fueled by the increased education of consumers who become more informed by utilizing web-based search engines and their lack of brand loyalty in the execution of their choices. According to Papatheodorou, to ensure that generating and receiving countries benefit in a fair manner corporate rivalry must be encouraged in a coordinated manner and therefore “co-opetition” may be the way forward (Stabler *et al.*, 2010:182).

2.4.2 The future of tour operators

Tourism is an ever changing environment that requires business enterprises to adapt to client demand changes as well as future projections of behaviour and technology. Buhalis and Licata (2002:207) disclose that information communications technologies (ICT) deeply affected the way business is performed and the way in which enterprises compete. This is especially evident in the distribution of products and services in the tourism industry.

The UK tour operators compiled in collaboration with industry role-players the report, *Tourism 2023*, in an attempt to prepare for future scenarios. During this process four scenarios emerged:

- **Boom and burst**

This scenario entails the continuous growth of mass tourism fuelled by rising disposable income in developed countries and expanding middle classes emanating from developing countries. This trend will lead to loss of wilderness areas, overcrowding at iconic destinations, congestion, etc.

- Divided disquiet

This scenario conjures up a future of worldwide devastation caused by natural disasters, social unrest and scarce resources. In this environment protectionism will be rife and only the rich and brave will risk travelling to places that run the risk of disappearing as tourist attractions.

- Price and privilege

In this scenario the rising oil price will increase travel costs to rise sharply and many business will not be able to survive due to this higher input cost and expected decline in tourism. This would result in long-haul travel reverting to the aspirational luxury status it enjoyed at the turn of the century.

- Carbon clampdown

The fourth scenario describes a future where environmental concerns and carbon offsetting costs are so strenuous on tourism demand that travel becomes uneconomical and anti-social (DestiCorp, 2009:1).

In 2008 Tourism Research Australia and Tourism Queensland commissioned a review of the distribution channels and revealed the following future trends according to their findings:

- Tour operators will have to invest in internet technology by improving functionality and design as well as website search engine optimization.
- Increase cooperative advertising with in-destination booking enterprises.
- Improve brand awareness and image advertising.
- Improve direct marketing and online advertising.

The results of this research further indicated that industry expects internet marketing channels to show the biggest increase in pre-arrival bookings. The trend of declining bookings received from traditional intermediaries such as travel agents and wholesalers should continue whilst telephone and reception desk bookings will also continue to decline (Tourism Queensland, 2008:1-3).

Taylor (2009:1) dismisses the trend of airlines acting as tour operators and indicated that revenues generated in this manner only constituted 18% of all ancillary revenue. The trend of charging for on-board services, which was started by low cost carriers, is now taken up by former full-service airlines in an attempt to boost revenue. Airlines find it more appealing to offer third-party services such as car rental and accommodation bookings than compiling tour packages.

Calveras (2006:1) concludes that the traditional tour operator provided services that diminished costs by facilitating coordination between components of the package, by reducing search costs (and time) and by providing credible information on true quality of the product. The advent of ICT has diminished the role of the tour operator to deliver an intermediation function and cost savings in search activities. The main future role of the tour operator will be to provide credible information. This credibility can be gained by building a reputation and brand name associated with quality information on products and services. The proliferation of digital-TV and m-Commerce will intensify the competition even further and electronic intermediaries will have to adapt to remain competitive (Buhalis et al., 2002:207).

2.4.3 Other intermediaries

Other intermediaries include retail travel agents, tour wholesalers, specialist channellers and general sales agents (GSA). The retail travel agent sells the tourism offerings to the tourists and acts on behalf of the tourists in engaging with suppliers for appropriate tourism products. These agents will in return receive a commission from the suppliers or a services fee from the tourists (Botha *et al.*, 2006:20).

Tour wholesalers compile tours (packages) and sell them through their own network of outlets (in-house outlets, retail outlets or retail travel outlets). Specialist channellers represent a group of buyers or sellers and compile tours and products to suit the needs of these clients in return for a commission or a salary. Specialist channellers include hotel group sales representatives, conference planners, incentive travel planners, etc.

The general sales agent (GSA) is the exclusive representative for a principle in a specified area (Lubbe, 2000:12). They will represent the interests of the principle in an area where the principle has no sales office presence but identifies a potential market for their products/services. These intermediaries can work on a fixed fee structure or a pure commission basis, or a combination of both (retainers and commission).

2.5 Conclusion

The tourism product is considered as a complex set of infrastructure and physical resources that combined produce an experience that the tourist demands and therefore tourism must be considered from a production and consumption perspective. To this extent the systems approach has been widely used to explain the different components of tourism as well as the relationships between them. This demand for tourism is a derived demand and the purpose of travel is key in understanding the product needs of tourists. The main categories of this demand comprise of business and leisure travel, each with its own characteristics and requirements.

Consumers have to make choice between time spent producing an income or utilizing time for leisure purposes. These choices will determine how much income is sacrificed and can be seen as the opportunity costs of leisure. The challenge for destinations lies in the provision of appropriate goods and services to different groups of consumers expressing different reactions to a change in income and the availability of substitutes. By considering the different price elasticities of demand, producers will be able to determine optimal pricing and minimize consumer surplus. External factors remain important determinants of demand and supply and will rely on international cooperation and solutions to achieve responsible tourism growth levels. The responsible management of the price elasticity of supply and the ability to adapt supply to changes in price, will determine future growth and minimization of spare capacity.

In order to overcome low elasticity of supply, producers will use price discrimination and product differentiation to minimize consumer surplus. This allows for small tour operators to develop niche markets and compete with bigger enterprises. The

deregulation of international aviation will continue to expand worldwide and integration will take place at different levels (vertical, horizontal and conglomerate integration) between organizations.

The distribution of tourism has seen significant changes and low profit margins has seen many companies close down whilst a few bigger entities dominate the market due to consolidation strategies in the market. Tour operators remain an important player in determining what kind of products are assembled for the tourists and play a major role in determining the nature of tourism development and implementation in developing countries. Future distribution of tourism products will be done by using direct and indirect distribution channels with a shift towards direct distribution via the internet and mobile technologies.

Black Economic Empowerment (BEE) strategies have been deployed to address the fact that established tour operators are mainly white-owned, whilst emerging small black firms are black-owned. The lack of meaningful databases and monitoring parameters has made it difficult to measure progress in terms of BEE in the tourism industry in South Africa. The following two chapters, Chapter Three, Black Economic Empowerment in Tourism and Chapter Four, Entrepreneurship and Business Management will endeavour to find solutions to these challenges and assist government in designing and implementing appropriate interventions to grow the market and further black economic empowerment in the tour operating sub sector of South Africa.

CHAPTER THREE

BLACK ECONOMIC EMPOWERMENT IN SOUTH AFRICA

3.1 Introduction

The BEE policy and government's enabling environment, in which tourism takes place, are discussed in this chapter. The first part of the chapter contextualises the general principles and goals of BEE in terms of economic growth and the creation of the macro environment in which tourism takes place. Historical data reflects the tempo of progress in terms of BEE in general and similarities are drawn between the Malaysian empowerment of their local communities and the application of BEE in South Africa. To ensure sustainable growth and job creation the BEE policy is underpinned by a sound human resource strategy that is briefly explained in this chapter. The transformation of the financial sector is crucial to the unlocking of business opportunities for Previously Disadvantage Individuals and the threat of this element as a barrier to access, is explained. The last part of this chapter is devoted to the application of BEE in tourism and the performance of tourism enterprises in terms of the Tourism BEE Scorecard. The chapter is concluded by a discussion on the implementation and monitoring of this policy by the Tourism BEE Charter Council and a future outlook.

3.2 Historical perspective

3.2.1 BEE in the macro environment

The South African Government addressed the disparities in economic and social development in South Africa by instituting the Reconstruction and Development Programme (RDP) as a formal attempt to rebuild the country. One of the main objectives of the RDP was to de-racialise the ownership and control of business in

South Africa. This programme endeavoured to put policies in place that would make it easier for black people to gain access to capital for business development. The state and parastatals had to provide capital to attain the Black Economic Empowerment (BEE) objectives whilst improving training and increasing participation in ownership (BEE Commission, 2001:1). By implementing BEE, government strived to pull poor people into the mainstream economy of South Africa in an attempt to make them benefit from the capitalist system. Jack (2007:8) cautions that if this is not achieved it will create an ideal political opportunity for the masses to move away from capitalism.

The Black Economic Empowerment Commission was established (1998) after a resolution taken by the Black Management Forum (BMF) in November 1997 and the need was expressed that black people (private and public sector) should take charge of the vision for BEE. This forum (BMF) wanted the BEE Commission to address the following issues:

- The lack of a national vision for BEE
- The lack of leadership by black business and government to direct and provide a vision for BEE
- Empowerment and enrichment
- The lack of a coherent definition for BEE

The Black Economic Empowerment Commission was established in May 1998 under the auspices of the Black Business Council (BBC) with the following objectives in mind:

- To engage in empirical research into the BEE process and report on the results of BEE during the 1990s.
- To determine obstacles that prevented black people to participate in a meaningful way in the economy.
- To develop a powerful case for an accelerated National BEE Strategy
- To make recommendations on policies and interventions that could guide the National BEE Strategy.
- To develop benchmarks and guidelines that could monitor the implementation of the National BEE Strategy.

The BEE Commission (2001:1) states that there has been little change in the overall inequality and wealth distribution in South Africa with the result that black people have remained in poverty and marginalized from ownership, control and management of economic activities in the country. According to this Commission Black Economic Empowerment is sometimes seen as the development of a black capitalist class and focuses on BEE investment companies. This is a very narrow definition and address smme's and skills development in a secondary way. The result has been a limited inclusion of black people in the economy and the growth of the middle class poor. This is echoed by Edigheji (1999: 6) by referring to the increase in asset base of emerging black entrepreneurs on the Johannesburg Stock Exchange (JSE) that increased from less than 1% in 1994 to nearly 8% in 1999. Although this is a significant increase in percentage terms, it remains small in terms of the total asset value of the JSE.

Edigheji (1999:6) argues that a broader definition focuses on the fact that the majority of black people are still excluded from financial and economic resources and that only a few black people, the rich black professional class, have benefited in terms of corporate ownership, leading positions in business and public sector and property ownership. Giliomme, as cited in Edigheji(1999:7) states that a huge gap has opened up between the top quintile of black people and the lowest two quintiles. This is substantiated by his findings that there is a 60 times differential between the top 10% of blacks and the poorest 10%. Jack (2007:12) concurs that black capitalists were so interested in profits that they did not speed up transformation beyond their immediate circles. To address this disparity a broader definition of BEE should focus on the increased access of black people to the productive assets of the country and at the same time retaining their productivity. BEE should therefore include job creation, empowerment of black women, poverty alleviation, land ownership, access to finance, education and skills development, rural development and urban renewal. The BEE strategy must be a people-focused strategy that is planned and implemented in a coordinated manner. The BEE Commission argues that BEE seeks to achieve the following:

- It is an integrated socio-economic process.
- It is structured within the context of the RDP.

- It aims to transfer substantial and equitable ownership, management and control of South Africa's financial and economic resources to the majority of its citizens.
- It seeks broader participation by black people in the economy of the country to ensure sustainable development (Van Wyk, 2010:40-41).

The BEE Commission (2001:3) contemplates that the marginalisation of black people from the South African economy acted as a depressant on aggregate demand and a skills and investment shortage, reinforced the low growth equilibrium. This situation can be turned around by a redistribution strategy that focus on productive asset redistribution (rather than income redistribution) and productivity improvements that will lead to increased economic and social returns (Jack, 2007: 6)

Heintz (2000) supports this view and is quoted in the BEE Commission Report as follows: "In developing effective investment and job creating policies, factors other than "economic fundamentals" need to be taken into account. The key determinates of investment can extend beyond the set of core economic influences. In many respects solving the problem of inadequate capital accumulation can be a political problem as well as an economic one. Furthermore, new redistributive strategies – for example, asset based redistribution to black people - could resolve the potential contradictions between encouraging investment and pursuing a more equal distribution of income."

In line with the RDP the government has initiated several programmes to guide the economy to reconstruction. Government established the Growth, Employment and Redistribution (Gear) strategy to stabilize the macro-economic environment. The budget has been realigned to provide in the provision of social services and infrastructure for the majority of South Africans. Several sectors in the economy have been privatized or deregulated (gaming, telecommunications, broadcasting, etc.) and attracted foreign and local investment (BEE Commission, 2001:4).

The advancement of the youth is a major priority for government and by establishing the National Youth Commission, South African Youth Council and the Umsobomvu Trust were established to promote youth development and entrepreneurship. The public sector has also been targeted for transformation and special emphasis is placed on

improved service delivery for all South Africans. Gender equality is streamlined through an action programme known as the National Machinery for the Advancement of Gender Equality. To further this course, government established the Office for the status of Woman and the Commission on Gender Equality. The role of this commission is to advance gender equity and make recommendations on legislation that affect the status of women (http://www.southafrica.info/ess_info/sa_glance/constitution/cge.htm) [Accessed: 17 March 2009].

The private sector has participated since 1994 in tri-partite structures such as the National Economic Development and Labour Council (Nedlac), Presidential Working Groups and the Millennium Labour Council. In 1998 the private sector announced at the Job Summit that they have committed themselves to development through the Business Trust. The aim is to demonstrate that through the Business Trust, partnerships between government and the private sector can lead to reducing unemployment and building capacity (<http://www.btrust.org.za/>).

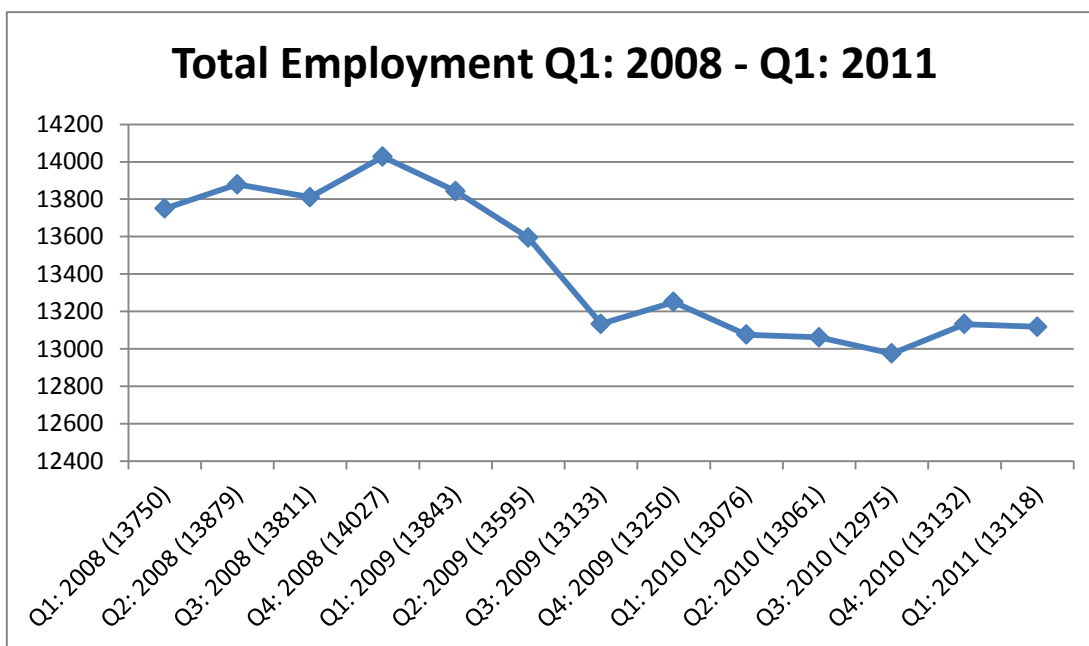
The BEE Commission (2001: 5) state that unemployment and poverty threaten the stability of the South African economy and to this extent the performance of government and the private sector interventions have not yielded sufficient job opportunities and redistribution of capital. Between 1994 and 2001 approximately 500 000 formal sector jobs have been lost. Stats SA found that the loss of jobs in the formal sector constituted approximately 7000 jobs in the last quarter of 2000 and that employment has declined by 2,5% from 1999 to 2000.

This trend of job losses was turned around in 2004/5 and the Labour Force Survey (September 2006) found that during September 2004 to September 2005, approximately 658 000 additional jobs were created and the number of employed persons rose to 12 301 000. A longer review period, September 2001 to September 2005, reveal that employment grew by over a million employment opportunities (<http://www.statssa.gov.za/publications/statskeyfindings.asp>).

The Quarterly Labour Force Survey (Quarter 1: 2011) reveal that from quarter 1 in 2008 the employment figure dropped from 13,750 million employed people to 13,118 in the

first quarter of 2011. This trend is depicted in figure 3.1 and indicates a peak employment figure of 14,027 million people in quarter 4 of 2008.

Figure 3.1 Total employment in South Africa ('1000), quarter 1: 2008 to quarter 1: 2011.



Source: Adapted from Quarterly Labour Force Survey: Quarter 1, 2011(Statistics South Africa, 2011:vii).

The objective of BEE to get previously disadvantaged individuals involved in the main stream economy of South Africa will also depend on the employment possibilities in the labour market for these racial segments. The depiction of the unemployment figures per racial category in table 3.1 is adapted from the Quarterly Labour Force Survey, quarter 1, 2011 and includes the unemployment rate as well as the number of economically inactive members of these groups. The global trend is towards uneven development and a growing income-gap between rich and poor nations. The world economy dictates less government intervention and the rapid mobility of human and financial capital. This will result in the disadvantaged being further neglected unless it is countered by designing policy and implementation mechanisms that will reach the desired growth and development goals of South Africa (BEE Commission, 2001:6).

Table 3.1 Labour market unemployment indicators

	Jan-Mar 2010	Apr-Jun 2010	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011
Unemployed	'1000	'1000	'1000	'1000	'1000
Black/African total	3 787	25,9	24,7	23,1	22,6
Unemployment Rate	29,6	29,4	29,8	28,1	29,0
Economically inactive	11 988	12 067	12 245	12 425	12 367
Coloured total	426	433	427	401	436
Unemployment rate	21,9	22,6	22,3	21,3	22,6
Economically inactive	1 036	1 074	1 086	1 126	1 090
Indian/Asian total	50	56	49	44	64
Unemployment rate	9,4	10,2	8,6	7,9	11,7
Economically inactive	374	361	347	360	374
White total	132	137	107	116	124
Unemployment rate	6,0	6,4	5,1	5,5	5,9
Economically inactive	949	983	1 024	1 013	1 001

Source: Adapted from Labour Force Survey, Quarter 1: 2011 (Statistics South Africa, 2011:1).

Neblett *et al.*,(s.a:4) claim that one of the reasons why the disadvantaged locals of Barbados are further disenfranchised, is due to current exclusionary practices such as not owning property or collateral, and therefore undermining black entrepreneurs to gain access to capital for business start-ups and expansions. This is similar to the situation in South Africa where the Department of Trade and Industry commissioned studies, consultative processes and reviews to determine what the systemic constraints are that prevent black owned small businesses to grow and develop. The findings are incorporated in the Strategy for Broad-Based Black Economic Empowerment and points to “access to finance” as the core problem (DTI, 2003:28).

Nelson Mandela (1997) is quoted in the BEE Commission Report as saying:” The wider and critical struggle of our era (is) to secure an acceptance and actualization of the proposition that while capital might be owned privately, there must be an institutionalized system of social accountability for the owners of capital. In this context it might well be that the success of our strategy for BEE will address not only the objective of the creation of a non-racial South Africa. It might also be relevant to the creation of the system according to which the owners of capital would, willingly, understand and accept the idea that business success can no longer be measured solely by reference to profit. According to this thesis to which we must subscribe, success must also be measured with reference to a system of social accountability for capital, which reflects its impact both on human existence and the quality of that existence.”

The BEE Commission is adamant about the role black business people have to play at achieving the goals of this strategy. The following key roles have been identified:

- Encourage investments in areas of national priority and mobilize support for these projects in the boards of pension and provident funds;
- Invest in skills development and growing companies;
- Work towards unified business structures that remain committed to BEE;
- Provide business support to other entrepreneurs and promote Government programmes and incentives;
- Promote compliance with the full spectrum of labour relations policies and legislation and go the extra mile;
- Promote compliance with principles of corporate governance;
- Promote the development of new forms of ownership and include communities and workers in ownership;
- Promote and include women-owned businesses in the economy;
- Empower local communities through procurement, job creation and the use of local content (BEE Commission, 2001:7).

One of the main criticisms of the BEE efforts introduced by government and the private sector, is the lack of coordination. In response to this, the BEE Commission proposed

an Integrated National BEE Strategy that must be overseen by the National Empowerment Commission (NEC) which will report to the Presidency and relevant cabinet clusters.

The key elements of the Integrated National BEE Strategy include the following (BEE Commission, 2001:8):

- An Investment for Growth Accord between Labour, Business and Government must be reached;
- The introduction of an Integrated Human Resource Development Strategy;
- The implementation of the Integrated Sustainable Rural Development Strategy and land reform;
- A National Procurement Agency that will assist in the economic transformation of South Africa;
- A National Black Economic Empowerment Act that will define BEE and facilitate the de-racialisation of economic activities;
- An Empowerment Framework for Public Sector Restructuring;
- Improved access to finance and the enhancement of the Post Bank capacity;
- Recommendations on building black business structures;
- Determining clear national targets.

These components are all important elements that can achieve the desired empowerment objectives but the sufficient implementation of all these interventions, will depend on an integrated plan. To this extent government compiled codes of good practice for Broad-based black economic empowerment in 2005, that would serve as guidelines for implementation (Jack, 2007:18).

The Deutsche Bank (cited in Sanchez, 2006:5) claimed that these codes bring together the transformation strategy in a coherent way that was not done before. The BEE Commission proposed targets for the next 10 years that would contribute to achieving the objectives of the Integrated National BEE Strategy. Table 3.2 lists the target

percentages in the different economic fields of interest that are proposed by the BEE Commission.

Table 3.2 Percentage participation by Black people

% Black Owned	Economic field of interest
30	Productive land in South Africa
25	Equity participation in each sector of economy
25	Shares listed on the Johannesburg Stock Exchange (JSE)
40	Executive and non-Executive directors of JSE companies
50	State Owned Enterprises & Government Procurement
30	Above Procurement contracts to SMEs
40	Senior & Exec. Managers in Private Sector (>50 employees)
40	Professions and Professional Training
20	Value of loans by National Development Financial Institutions
30	Equity of restructured State Owned Enterprises
30	Long term contracts & concessions in Public Sector
20	Participation in Higher Education & Training
40	Government Incentives to Private Sector

Source: Compiled from data obtained in the BEE Commission Report, (2001:9).

These targets are set as desirable objectives and where targets are met within the 10year period, additional targets should be set. Tourism specific targets and progress are discussed in section 3.6 and in the Tourism Scorecard.

3.2.2 Addressing Economic Growth

Economic growth holds the key to higher employment and to redistribute the wealth of South Africa amongst all its' people. To achieve this growth, the South African government has put several macro-economic measures in place.

3.2.2.1 Measures to increase economic growth in South Africa

In South Africa the lack of demand and a viable domestic market has resulted in companies investing offshore and creating employment opportunities in other economies. Globalisation has brought about the demand for highly skilled and productive labour and in order for South Africa to compete in this environment; substantial investments must be made in our human capital. Government is committed to attract foreign investment, improve infrastructure and technology, improve the standard of our human capital and to gain access to international markets. It is expected by government that the bulk of investments will come from the domestic market and therefore confidence levels of South Africans should be improved.

Minister Trevor Manuel and his department have succeeded in creating a favourable macro-environment that should be used as a basis to stimulate future growth. An Integrated Manufacturing Strategy that will deliver world-class producers that can export products and services, and establish new industries to replace declining industries in South Africa, can further support the objectives of the BEE strategy (BEE Commission, 2001:10).

Government must concentrate on strategies to increase fixed investment to 25% instead of the current 15%, in an attempt to generate an economic growth rate of 6%. These strategies should include measures to steer financial flows to productive investment. In East Asia and Japan, governments have created Development Finance Institutions in response to market failures that were not directing funds to priority areas such as manufacturing.

These investments must also comply with social responsibilities and fund managers must incorporate social and ethical criteria in their overall investment criteria. In South Africa there are over 20 funds that are investing in BEE and priority areas such as property, electrification and infrastructure. The BEE Commission proposed that a Targeted Investment Strategy be put in place to increase the levels of investment and improve the growth rate of South Africa. They also propose that this strategy should not

be exclusively directed at black business but the bulk should include social and economic infrastructure and investments in human infrastructure (BEE Commission, 2001:11).

Samuelson and Nordhaus (2008:314) highlighted the effects of differential population growth on an economy that are characterized by high inequalities. He indicates that the economic growth of South Africa has been disappointing from 1980 to 2008 and that two key features of this economy are the extreme inequalities and the divergent population growth between Black/African (rapid growth) and White (stagnant) population groups. He further shows in his research that these two features lead to an apparent drag on growth whilst the individual components are growing at a healthy rate (Samuelson *et al.*, 2008:314). In order to achieve healthy growth the three main stakeholder groups must have clear guidelines and firm commitments to ensure future growth. These include the following:

- Government:
 - Government Employees Pension Fund (GEPF) should invest 10% of its assets in productive priority investments.
 - Government should invest a portion of the income generated through privatization to a rural development agency.
 - Government should commit an increasing portion of the budget to capital expenditure and development and restructure state assets in such a way as to increase direct local and foreign investment in the provision of infrastructure.
- Business:
 - The financial sector should invest a proposed 10% of their assets in productive priority investments.

- The private sector should contribute to rural development and anchor projects that will attract investments to Industrial Development Zones.
- The banking sector should invest in underdeveloped areas in terms of the proposed Community Reinvestment Requirements.
- Labour:
 - The labour movement must become participants of the Investment for Growth Accord.
 - Utilise the influence over savings and investments of members in an appropriate manner and introduce a training programme for trustees to encourage responsible and social beneficial investments.
 - Trade unions could explore the option to utilize retirement funds to increase black participation in the economy and use joint employer/employee pension contributions to increase worker ownership in specific businesses.

The strategy should be guided by the principles of joint public-private partnerships such as the Business Trust and accredited fund management companies. This Investment for Growth Accord , should generate additional growth and stimulate investment and job creation similar to the NEP of Malaysia (section 3.3). In this manner formal jobs will be created, investment confidence boosted, domestic demand stimulated, smme development encouraged and rural economies improved (BEE Commission, 2001:12).

The main goals of this Accord will be the identifying of projects and opportunities that will enhance fixed investment and economic, as this will enable government to achieve the objectives of BEE.

3.3 The Malaysian example of economic redistribution

The Malaysian example indicates that the pattern of poverty reduction closely followed the growth rate of the country. Growth and a dynamic economy will itself eliminate racial disparities and secondly it provides government with growing revenues that can be applied to assist affirmative action goals (Emsley, 1996:82). The Malaysian experience has shown that with the correct interventions and economic growth, suitable equity distribution can take place. Table 3.3 gives employment figures of indigenous people by sector and the comparison between 1970 and 1990 (Emsley, 1996: 45)

Table 3.3 Employment by sector 1970 and 1990 ('000s and percentages)

	1970	1990	Bumiputra proportion 1970	Bumiputra proportion 1990
Primary	1518	1876	68	71
Secondary	373	1716	31	48
Tertiary	1049	3029	38	51
TOTAL	2940	6621		

Source: Emsley, (1996:45).

Those sectors in Malaysia that have grown employment the fastest, has affected the biggest changes in equitable racial employment participation. The primary sector had a marginal improvement from 68% to 71%, while the secondary sector improved from 31% to 48% and the tertiary sector from 38% to 51% (Emsley, 1996:45).

The Malaysian New Economic Policy (NEP) was mainly supply-oriented while their RDP programme was more consumption-orientated. The reduced racial imbalances have come about through rapid economic development and the inclusion of the disadvantaged majority (Bumiputra). The NEP had four main focus areas that received attention from the National Government.

Firstly, the eradication of poverty was mainly achieved by the migration from rural low-wage employment to urban high-wage employment. The movement away from agricultural employment opportunities to other sectors in the urban areas was mainly due to economic growth in Malaysia. If economic growth did not occur, the possibility to offer higher wages in the cities would not have been possible and poverty distribution, spreading poor people from the rural areas to urban areas, would have occurred. Due to the increased income generated by economic growth, government was in a position to provide about 10% of their expenditure to rural development and poverty alleviation in this area.

The second focus area was to eliminate the identification of race with economic function. The government created a range of parastatals that brought industrialization to the country, as the manufacturing sector was viewed as the sector with the most potential for sustainable productivity improvements. Radical redistribution would have resulted in decreased productivity, an exodus of skilled people from the country and an investment “strike”. Structural change and sustained economic growth were preconditions to transform the racial disparities that existed (Emsley, 1996:84).

The third focus area of the NEP was the equalization of equity ownership and relied on sufficient government revenues. When the growth rate declined in the 80's, so did the equity acquisitions. Investments made by government agencies resulted only in a redistribution of ownership and a reduction in the net foreign investment by buying out foreign investors. These investments resulted in diminished returns as funds could have been used more productively in other applications.

The fourth focus area was the creation of a Bumiputra industrial and commercial sector. The key delivery mechanism was a long period of appropriate education that produced a high level labour force from this racial group. Bumiputra professionals, who were generated by the focused education system, found suitable employment due to a high economic growth rate. The success of the BEE strategy in South Africa will rely greatly on the growth rate and the accompanied opportunities that will be generated in the next 5-10 years (Emsley, 1996:85).

3.4 A Suitable Human Resource Strategy

The previous Further Education and Training (FET) and Higher Education and Training (HET) system was fragmented and uncoordinated. The inequalities that were perpetuated by these systems have resulted in poor competitiveness in the global market place. Global competitiveness is no longer based on mass production of standardized goods and low-wage labour alone, but factors such as high skilled labour that can utilize new technologies, continuous innovation and increase productivity have become factors in determining competitiveness (BEE Commission, 2001:13).

In response to these demands the Integrated Human Resource Development Strategy (HRD) was formulated. This strategy takes cognisance of the HIV/AIDS pandemic and the demands that it will place on human resources. Education is important for businesses as it will be able to provide a suitable pipeline of employees for the future. Businesses are complaining that they find it difficult to meet employment equity and Black management targets due to insufficient black candidates (Jack, 2007:199). The South African Schools Act was introduced to address the injustices of the past and to provide all learners with high quality education. School attendance was made compulsory for children aged 7 to 15 and the curriculum transformed to Outcomes-Based Education. A national campaign was launched to create a culture of learning and an Adult Learning Plan implemented. The FET system was transformed to create accessible learning to post-compulsory learners taking cognizance of social and economic needs.

The Skills Development Act of November 1998 and the Skills Development Levies Act of February 1999 have created a framework to improve coordination between training and education and the employer. A National Skills Authority and about 30 Sector Education and Training Authorities (SETA's) were instituted. A national levy-grant system was introduced based on a 1% tax on payroll that would be made available in the form of grants to those employers who invest in the training of their employees. It is determined that 20% of the total income generated by this payroll tax is retained by government to

form a National Skills Fund (NSF) that ensures that strategic priorities are reached (BEE Commission, 2001:14). This fund may only be used for projects identified as part of the national skills development strategy and its national priorities.

(<http://www.polity.org.za/html/govdocs/legislation/1998/act98-097.html>)

The South African Qualifications Authority (SAQA) Act ensures the development and registration of national qualifications and standards, as well as the establishment of quality assurance bodies. To ensure coordination between all the training and education institutions, the creation of the National Qualifications Framework was necessitated and the authority responsible for this function is accountable to both the Minister of Education and Labour (BEE Commission, 2001:14). This could be problematic if the Ministers of Education and Labour do not agree on issues.

An Employment Equity Act was implemented to assist those individuals who were denied access to high-skill employment based on race and gender. Employers are encouraged to provide on-the-job training to empower these individuals and to create access to previously inaccessible employment opportunities.

According to the BEE Commission (2001:15) the contribution from the private sector in developing the human resource is small and the 220 largest firms in South Africa, spent only R 725 million on Corporate Social Development during 1997/1998 with 44% of this figure spent on education. In the private sector the mean level of expenditure on training is well below 2% of asset value. This situation is being addressed by the private sector through the Business Trust, which for example provided basic assistance by re-equipping the Technical Colleges at the time.

These colleges were replaced by the sector training bodies (SETA's) and the SETA responsible for tourism, THETA has been incapable of delivering the skills base needed in tourism. During February 2011 the Portfolio Committee on Higher Education and Training commented on the 2009/10 annual report by THETA and disclosed that they spend 0% of their budget on critical skills, had a poor performance in new venture creations and errors in financial reporting(Committee Reports: 2011).

There are not enough highly qualified black people to fill the expected professional employment vacancies that will arise due to the expected growth levels. The highest rate of growth is expected in the services and banking sectors and training for black people should be geared towards these sectors. The low levels of black participation in the professions are evident from the BEE Commission research that indicates the following white male percentages in specific fields (BEE Commission, 2001:15):

- 99% of certified engineers
- 96% of professional engineers
- 94% of professional technologists
- 94% of engineering technicians

These figures are in stark contrast to the population distribution where white males only constitute 8% of the economically active population. The South African Medical and Dental Practitioners (SAMDP) estimate that about 15% of the total number of medical practitioners is black and of this percentage about 30% are black woman. They also estimate that about 500 of the 4500 dentists in South Africa are black practitioners.

Table 3.4 reflects the poor performance in so far as black participation in management structures is concerned and the only sector that has more female employees in management positions is the advertising industry. From this table it is clear that advertising, banking, mining, research and professional sectors show the least integration. The Information and Communication Technology sector is a vital sector that can transform the way business is conducted in South Africa and the need for new skills and technologies can be utilized to achieve BEE.

The SAITIS project located in DTI is aimed at designing and implementing an integrated IT strategy and several other initiatives such as the Technology Transfer Agency, the Technology and Human Resources for Industry Programme (THRIP), the Support Programme for Industrial Innovation (SPII) and the Partnership in Industrial Innovation (PII) will provide further assistance to enterprises in innovation. The DTI offers funding

to SME's for Feasibility Support Studies (FSS) that could lead to possible innovation and technology advancements. An incubator environment, known as The Innovation Hub is made available by the Centre for Scientific and Industrial Research (CSIR) and the Gauteng government, to provide integrated support for new businesses (BEE Commission 2001:16).

Table 3.4 Historical management profiles by sector 1999

Sector name	African	Asian	Coloured	White	Female	Male
Advertising*	3%	1%	2%	95%	53%	47%
Banking	4%	3%	2%	91%	24%	76%
Building and Construction	5%	6%	3%	86%	8%	92%
Communication	16%	6%	6%	73%	14%	86%
Financial Services	5%	4%	5%	86%	26%	74%
Financial Services Field Staff	18%	6%	3%	74%	3%	97%
FMCG*	10%	6%	11%	74%	16%	84%
Industrial	10%	5%	2%	82%	10%	90%
Media	8%	3%	3%	86%	25%	75%
Mining	4%	1%	1%	94%	5%	95%
Motor	4%	5%	4%	87%	7%	93%
Oil	9%	8%	13%	70%	12%	88%
Paper and Packaging	8%	6%	4%	81%	10%	90%
Research And Professional	5%	3%	2%	90%	21%	79%
Retail	9%	7%	14%	71%	32%	68%
Services and Head Office	6%	4%	2%	88%	18%	82%
Transport	8%	5%	3%	84%	12%	88%
ALL INDUSTRY	7%	4%	4%	84%	17%	83%

*Rounded figures could result in cumulative figure exceeding 100%

Source: BEE Commission, (2001:16).

The tourism sector has been identified as a key growth sector and therefore black people need to be skilled for this sector. The Business Trust has decided in 1998 to

commit R1 billion in the tourism sector over the next five years. The Department of Environmental Affairs and Tourism (DEAT) has identified 19 Priority Areas for Tourism Infrastructure Investment (PATII's) that will form the basis for tourism product and skills development (BEE Commission, 2001:17).

The Tourism and Hospitality Education and Training Authority (THETA) devised a National Training Strategy that determines accreditation, standards of training and disbursement of levies. The Hospitality Industries Training Board (HITB) entered into a partnership with the Business Trust and DEAT to develop learnerships as a job creation project. This project targets students and unemployed youth in an attempt to improve their employability through structured learning and workplace experience.

The HRD Strategy must be an integrated cross-sectional initiative to utilize the education and training infrastructure to meet the human needs of an economy that competes globally. Ideally the HRD Strategy should include the full spectrum of learning including schools, higher education, adult basic education, life-long learning, youth learnerships, SME skills development and on the job training (Peach, 2011:76). In order to reach the BEE objectives the government needs to impose penalties on institutions that do not generate the desired black student outputs and the current subsidy system is a useful instrument to utilize for this purpose. Programmes that encourage entrepreneurship at all levels, including schools and tertiary institutions must be encouraged and financial incentives must be made available to those who comply. The current Skills Levy (payroll tax) percentage should be gradually increased from 1% to 5% percent in order to combat the current unemployment rate of approximately 30%. The youth should be a priority target group and appropriate skills development and education should be aimed at improving their employment chances in a global competitive market (BEE Commission, 2001:18).

3.5 Accessible capital and financial services

The support that the SME sector received in the past focused on the micro level and had limited financial and non-financial assistance. Government programmes overestimated

the extent to which the private sector would participate in BEE efforts and ascribe the lack of meaningful transformation to the entrenched racism in especially the financial sector (BEE Commission, 2001:19).

In order to combat this, the government has embarked on restructuring public institutions that were geared towards the previous governments' goals and refocused organizations such as the Industrial Development Corporation (IDC), the Land Bank, the Development Bank of South Africa (DBSA) and the former Small Business Development Corporation (SBDC). Government also established new organizations and mechanisms such as Khula Enterprise Finance, Ntsika Enterprise Promotion Agency, the National Small Business Council and the Centre for Small Business Promotion within the Department of Trade and Industry. More recently government created the National Empowerment Fund, the Umsobomvu Trust and the Isibaya Fund.

The BEE Commission recommended that financial institutions must be required to submit annual Empowerment Reports to the Financial Services Board or the Reserve Bank. They also recommended that the State promotes a regulatory environment that can facilitate the emergence of Micro-Finance Institutions (MFI's) that have a sustainable development focus and can extend financial services to the poor. To this extent the Post Bank can play a key developmental role. Neblett *et al.*, (s.a:6) concluded that the mere existence of institutional support in Trinidad did not have the desired effects as very few micro enterprises made use of their services. This topic will be further discussed in section 4.2.6 that refers specifically to the Tourism sector.

3.6 BEE progress in the Tourism Sector

This section refers to findings published in 2003 in the South African Tourism Industry Empowerment and Transformation Annual Review 2002 (ETAR) (Mason, 2003: D.4.1-D.4.53.). One of the main departure points in this report is the fact that BEE is not a government-imposed cost on reluctant businesses but that it offers clear advantages to businesses that can develop and implement a business-driven empowerment vision.

The Department of Environmental Affairs and Tourism envisage that many of the small, medium and micro enterprises that will benefit from the tourism growth in South Africa will be black owned businesses. Unfortunately there is little or no quantitative data available on empowerment in the tourism industry and the results of this report will serve as a benchmark for further research (Mason, 2003:D.4.6)

The Minister for Environmental Affairs and Tourism embarked on a Provincial road show in October 2004 to design an inclusive and balanced score card for the industry. This road show created opportunities for role players and stake holders to contribute to the creation of the Tourism BEE Score card and submissions could be made at the venues or in electronic format (Annexure 2).

In order for the Tourism BEE Score Card to be successfully implemented, a comprehensive strategy had to be deployed including: job creation, rural development, urban renewal, poverty alleviation, land ownership, specific measures to empower women, skills and management development, education, meaningful ownership and access to finance for the purpose of conducting business. The Cluster Consortium (1999) noted that there were seven key BEE drivers in South Africa's tourism industry that ranged along a continuum of predominantly social, to predominantly commercial. These drivers include:

- Social responsibility
- Social stability (crime free, stable, tourist-friendly)
- Stakeholder support
- Government incentives
- Cost cutting and efficiency
- Product and market development
- Quality of service

The complexity of these drivers is exacerbated by tourism's unique dependence on the local communities where they operate. The demand for an "African Experience" creates strong commercial incentives for empowerment at all levels in the industry. The

consumer demand for “responsible tourism” demands tourism experiences that support the “triple bottom line” principle in terms of social benefits to the local community, economic benefits and supportive of the environment.

3.6.1 Ownership

The BEE Commission proposed the following definitions on measuring black ownership:

- A “black company” is one that is 50,1% owned and managed by black people.
- A “black empowered company” is one that is at least 25,1% owned and managed by black people.
- A” black influenced company” is one that is 5-25% owned and managed by black people.
- An “engendered company” is one with at least 30% representation of black women within the black equity and management portion.

In terms of these definitions few companies are black owned or black empowered. The measure of ownership is further complicated by the nature of ownership and the form of business that is constructed. This research identified five distinct categories of ownership:

- 100% foreign-owned companies
- Wholly owned subsidiaries of public listed companies
- Companies independently listed on the JSE
- Companies privately owned by mainly South African interests, and
- Companies wholly or partly owned by the government or state-owned enterprises.

In the case of 100% foreign-owned companies there has to be a very strong business case to encourage them to take on a local empowerment partner. This partner will have to have proof of an excellent track record as well as the financial means to contribute to the foreign-owned company. Wholly-owned subsidiaries of public listed companies,

independently listed companies and privately owned companies will have similar requirements in terms of a good business case. Even enterprises where the government or state-owned enterprises are the majority shareholders find it difficult to implement BEE in terms of black ownership, due to financial constraints. According to BusinessMap empowerment players are mostly involved in the gaming sector because it is financially more lucrative than other tourism segments and government could exert pressure through their licensing controls over gaming.

One of the methods used to support BEE in terms of ownership, is to embark on an employee share ownership scheme or programme (ESOP). Some of the bigger companies such as ACSA, AVIS, City Lodge and Tourvest have used this mechanism. Unfortunately the perception exists that the tourism market is not attractive for black companies and therefore empowerment activities have focused on other sectors. Access to finance remains the single biggest constraint on increased black ownership in the tourism sector especially as many options are associated with high capital investments. Even in those segments that were not capital intensive, such as travel agents, the would-be travel agents must put up substantial financial guarantees in order to be accredited by the International Air Transport Association (IATA) (BEE Commission, 2003:18).

Special Purpose Vehicle (SPV) funding structures were designed in an attempt to make resources available for increased black ownership. These structures were based on the anticipated bear stage of the stock exchange and the accompanied growth that would cover the empowerment groups' financial obligations. The lack of the JSE to continue its' bear run caused many empowerment deals to run into trouble and put a halt on increased black ownership. On 31 May 2004, the Minister for Trade and Industry announced the National Empowerment Fund with a capitalization of R2 billion to assist broad based BEE in meeting the following requirements:

- increase market opportunities that are generated by economic growth and increased local demand
- increase the levels of business support to enterprises

- invest in skills development, and
- create better access to finance (Mpahlwa, 2004:1).

3.6.2 Affirmative Procurement and Business Development

This mechanism has the potential to make a large contribution to BEE in the tourism sector. This concept entails the commitment to procure goods and services from black owned businesses or businesses with black empowerment programmes in place.

Companies are aware that the benefits of endorsing this concept can include:

- Reduced costs of goods and services sourced from local suppliers
- Improved external relations
- Improved access to authentic “African” experiences
- Government support, and
- Attract and retain customers that are supportive of empowerment initiatives.

There are several difficulties in measuring this concept and they include the lack of monitoring of affirmative procurement in existing companies, the different interpretations of the term “black owned business”, possible additional costs associated with preferential procurement and business development, and companies measure affirmative procurement on different sets of data (e.g. discretionary operating expenditure or percentage black shareholding of suppliers).

3.6.3 Internal Transformation: Management and Skills Development

The greatest progress in terms of BEE has taken place in this field and can be ascribed to the facts that transformation in this field started before 1994 and government established clear directives in terms of the Employment Equity Act and the Skills Development Act. Human resource development is of critical importance to deliver high quality service and the Department of Environmental Affairs and Tourism has made

significant strides in supporting Provincial smme's through the Tourism Enterprise Development Programme (TEP).

The South African Tourism Industry Empowerment and Transformation Annual Review (Mason, 2003:D.4.25) found that the results of employment equity was diverse in their sample and that companies with 50 or less employees were not obliged by law (Employment Equity Act 1998) to have employment equity plans and only those companies that employ more than 50 employees (bi-annually) or 150 employees (annually) have to submit progress reports to the Department of Labour.

The difficulties in transforming employment profiles include:

- A small pool of tourism skilled employees exist in South Africa
- Black managers are prone to enter more lucrative industries than tourism
- Tourism is not viewed amongst black people as a desirable industry to work in
- Restructuring reduces the overall number of jobs in companies and inhibits transformation, and
- In general tourism companies have small management teams that reduce the number of potential positions at this level.

Skills development can take place through Skill Development Plans that are submitted and accredited by the Tourism, Hospitality and Sport Sector Education and Training Authority (THETA). Some of the bigger tourism companies have in-house executive training programmes that will fast-track the development of black managers in the industry.

3.6.4 Community Development

Tourism relies on local communities to enhance and deliver their product. This justifies the investment in local communities and enables tourism to take place with the acceptance and support of local communities. This investment in local communities is

also known as corporate social responsibility initiatives (CSI) and range from financial investments to local procurement.

3.6.5 Market Development

The Department of Environmental Affairs and Tourism (DEAT) estimate that in 2002 the international tourists account for only 20% of the total tourism market and that industry will rely on strong domestic growth in future. Many domestic tourists are hampered by limited spending power and cannot afford the top-end products that South Africa has to offer. Creating access to tourism products and destinations will be a critical factor in unlocking the domestic market potential. The products and services are not geared towards the local market and the emerging black middle class will demand different product offerings that are not “eurocentric” (Mason, 2003: D.4.30).

3.7 Tourism BEE Charter Council

The Minister of Environmental Affairs and Tourism, Marthinus van Schalkwyk announced the launch of the Tourism Black Economic Empowerment Charter Council on 29 May 2005. This council focused on delivering the seven broad focus areas of the charter that consists of: ownership, strategic management, employment equity, skills development, preferential procurement, enterprise development and social development (www.info.gov.za/speeches/2006) [Accessed: 12 May 2008]. This charter will be applicable to all tourism enterprises in the value-chain and although not compulsory, there will be major incentives to implement the targets in these enterprises.

Chairperson of the Tourism BEE Charter Council, Mr. Tami Sokuto said that this charter will mainly try to benefit black entrepreneurs by addressing business barriers embedded in preferential procurement and enterprise development. In doing so, they want to benefit black unemployed and rural poor people through corporate social investment and addressing poverty barriers (www.info.gov.za/speeches/2006) [Accessed: 12 May 2008].

3.7.1 Vision and mandate

The Tourism BEE Charter Council has been tasked with a clear vision and mandate. The vision of this council is to drive transformation in tourism and to fulfill their mandate that consists of:

- facilitating the communication of the Charter and Scorecard
- facilitating the certification by DTI of whose entities comply with the Charter
- facilitating the incentives available to tourism enterprises to comply and become certified
- to compile an annual report on the Tourism Sector progress
- to develop a framework and capacity for the implementation of the Charter
- to facilitate the implementation of innovative programmes to fast-track transformation, and
- to advise the minister on BEE related legislative and regulatory developments (www.tourismbeecharter.co.za) [Accessed: 11 April 2008].

3.7.2 Initiatives taken by the Council

The Council has embarked on several initiatives to fulfill their objectives and mandate. These include the following:

- A baseline study on the state of tourism transformation

This study was conducted throughout South Africa to ascertain the extent to which BEE has been implemented within the tourism sector. The study commenced on 2 May 2006 by drawing a representative sample from various databases. The intention was to conduct a pilot study in July 2006 and to present the Council with a rollout representative sample of tourism enterprises covering the various enterprise and product categories in South Africa (www.tourismbeecharter.co.za) [Accessed: 11 April 2008].

- Aligning the BEE charter with the Codes of Good Practice

The Tourism Charter was signed on 18 July 2006 and as a Transformation charter it needs to be issued as a gazette of Codes of Good Practise in terms of Section 9 of the BEE Act. Once Cabinet approved the Codes, the Tourism Charter could be analysed to determine alignment with the Generic code of Good Practice. Only after the tourism Charter was aligned to the Generic code of Good Practice, was it be published as the Tourism Code of Good Practice in accordance with Section 9 of the BEE Act. When this took place the Charter became binding to all organs of the State and those establishments that want to do business with the public sector.

- Web-based Tourism BEE self-assessment tool

A self –assessment tool has been developed that enables entities to input their BEE data to the system and obtain a score per element as well as an overall BEE score.

- Tourism Public Sector Procurement Tool

The tourism public sector procurement tool draws information from the Self-assessment data and informs procurement officers of the BEE score of tourism entities. This will enable the Council to determine how much each department is spending on BEE tourism goods and services.

- Tourism Public Sector Procurement Study

The BEE Charter acknowledges that there are two main challenges: to become more globally competitive, and the need to include black people in the tourism sector. The intension is to utilize the preferential procurement system to address these issues. The study will enable Council to monitor Governments' spending on tourism and to direct preferential procurement to improve BEE. The study endeavoured to find answers to determine public sector spending patterns in tourism and to compare the spending of a specific public entity in terms of tourism goods and services compared to other goods

and services. The final report of this study made recommendations on how to overcome the challenges in becoming BEE compliant in the tourism sector.

- Black Talent Project

This project is aimed at addressing three of the Tourism BEE Charter Indicators, namely employment equity, strategic management and industry specific factors. Industry role players have indicated that it is difficult to find qualified black people eligible for employment or participation in management. The Council has commissioned the compilation of a database of black professionals and graduates in tourism, in order to alleviate this problem.

This database aims to: establish and grow a suitable databank of information, encourage all people to develop skills and recognize their qualifications and achievements, encourage the large number of unemployed to participate in learnerships and apprenticeships, facilitate the formal recognition of skills and competencies obtained through experience, monitor and track the development and transferability of skills, consistently verify these experiences, and provide statistical data on skills trends, demand and supply.

- Databases to support BEE Charter Implementation

Three databases are being compiled that consist of parties within the tourism sector that seek empowerment partners, BEE compliant suppliers serving the tourism industry and corporate social investment (CSI) programmes and initiatives.

The Empowerment Partners database address the following:

- research on entities that want to engage with empowerment companies
- develop a procedure to authenticate empowerment profiles
- develop a campaign to encourage black-owned and black-empowered companies to submit their business and empowerment profiles

- develop a comprehensive database of potential partners within the tourism sector as well as those seeking for such partners.

The BEE compliant suppliers database address the following:

- research on BEE compliant suppliers and black entrepreneurs that service or, will be in a position in future, to service the tourism sector
- develop and implement a campaign to encourage relevant suppliers to disclose their business and empowerment credentials
- develop a wide-ranging database of black suppliers within the tourism sector
- ensure that BEE empowered companies' and suppliers' profiles are accessed by the industry and public sector
- The CSI projects database will address the following:
 - research to current and potential future CSI projects within the tourism sector
 - propose new and innovative CSI programmes that will promote and benefit the industry
 - develop a campaign to encourage tourism entities to invest in CSI initiatives
 - list CSI projects that tourism companies can contribute to.

- Tourism BEE recognition and incentive system

The Council will develop a recognition system that acknowledge transformation efforts in the sector and offer incentives as part of the system. This project will address the following:

- research international best practices in terms of recognition and reward systems as well as loyalty programmes
- link the seven elements of the Tourism Scorecard into the recognition and incentive system and promote these entities
- recommend an appropriate model and suggest how it will be implemented

- develop a campaign to encourage and attract tourism entities to participate in this system
 - develop an extensive, effective and sustainable recognition system incorporating all the stakeholders in the tourism sector.
- Enterprise Development case studies

The Council is embarking on a study to assess the different enterprise models and mechanisms that will guide the tourism sector in implementing the Enterprise Development indicator of the tourism Scorecard. Enterprise Development contributions relate solely to initiatives aiming to benefit black- owned and black-empowered companies. These initiatives include the funding for grading of these enterprises as well as business linkages that can create business opportunities for them. This initiative aims to ultimately accelerate the financial and operational capacity of black entrepreneurial businesses. This project will address the following:

- research generic enterprise development models
 - identify specific models and mechanisms that will assist in the implementation of Enterprise Development
 - name institutions that can assist the sector with implementation
 - indicate the different kinds of support currently deployed in terms of Enterprise Development
 - present examples of existing Enterprise Development models for implementation
- Developing Verification Systems, Processes and Capacity building for annual reporting on BEE.

The aim of this project is to provide BEE implementation guidance to the sector through a source of data specific, verification mechanisms and methods. Fair Trade in Tourism (FTTSA) has been appointed to develop this verification system. The following will be addressed in this process:

- develop a model for the ratification of BEE deals

- develop a system for measuring and monitoring BEE compliance
- establish industry-specific criteria necessary for verification
- develop criteria for the accreditation of verification agencies
- develop a means of a partnership between the Council and verification agencies
- identify ways to offset verification costs for small and micro enterprises
- succeed in having the definition and structure of the Charter measurements and monitoring process adopted by the Tourism BEE Charter Council
- develop monitoring tools and guidelines including a system to measure and monitor BEE compliance
- prepare specific criteria for the establishment of a partner in the verification industry
- develop a system and process to enable annual reporting on Charter implementation (www.tourismbeecharter.co.za) [Accessed: 11 April 2008].

3.8 The future and current transformation

Tourism will function in a future environment that has been shaped by BEE and transformation. Significant progress has been made to date if compared to the state before 1994. This is evident in a report compiled by Moody's (2008) on BEE in South Africa, in which government's BEE initiative has been credited for influencing mergers, acquisitions and private equity. This financial research and credit ratings company profess that completed BEE transactions over the last decade amounted to more than R200 billion, with transactions for 2007 alone totaling R96 billion (Macdonald: 2008).

In 2010 Microsoft announced that they would invest almost half a billion rand in the local software industry in South Africa, over the next seven years, as part of their BEE programme. The goal is to help small, black-owned software development companies to grow into global businesses by 2017. Arthur Goldstuck, the MD of technology research house World Wide Worx commented on this as follows: "It is the first time a major multinational is willing to put both financial muscle and expertise behind the growth of

the SME sector, as opposed to a generic offering of money that is not applied to a specific outcome." He concluded by saying: "Research from our annual SME survey points clearly to the fact that small businesses that think like big businesses, and use so-called big business tools, are far more likely to be highly competitive in their given field. If this deal is able to give the chosen companies that business approach and tools, it has a good chance of achieving something different in the BEE environment" (SA Good News, 2010a:1).

Several major BEE share issues were issued in 2009 and 2010 with an overwhelming response from black South Africans. MTN's Zakhele black economic empowerment offer exceeded all expectations whilst SAB Miller's offer was 1,7times oversubscribed and raised approximately R2,8 billion with more than 124,000 applications from previously disadvantaged communities(SA Good News, 2010b:1).

Research by the Human Science Research Council (HSRC) indicates that there has been significant growth in the black middle class of South Africa. The middle class constituted 8,8% of the population in 1994 (approximately 3,5 million people) and this grew to 11,9% of the population in 2000 (approximately 5,3 million people). The percentage of black people comprising the middle class in 1994 was calculated at 29% whilst this percentage grew to 50% in 2000. A study by the Bureau of Market Research at the University of South Africa found that the black middle class in South Africa grew by 3 million people between 2001 and 2007 totaling 9, 3 million black people in 2007 (Heyns, 2012:1). Further interesting findings of the study reveal the following:

- The growth rate of the population of the black middle class aged 16 years and over was 6.5% per annum during the period 2001 - 2007.
- Females contributed about half the population of the emerging Black middle class aged 16 years and over in 2007.
- An emerging black middle class female has 2-3 children by the end of her reproductive life.

It is not just the rise of the black middle class that is a result of transformation efforts but also the rise of affluent black elite that is referred to as black diamonds. These are high net worth individuals that are seen as capitalists who does not ensure a trickle down of wealth to the broader population. The following information pertains to Black diamonds:

- Black Diamonds comprise over two million people who have a combined annual spending power of R130-billion and whose ranks are growing at an estimated rate of 50% a year
- 72% of South Africa's new black middle class believe that only a few privileged people are benefiting from the BEE process

With the above figures as evidence of the transformation process unfolding in South Africa, the future outlook for BEE is positive if the trickledown effect can be enhanced and all the people of South Africa benefit from capitalism and these government interventions.

3.9 Way forward

It is clear from the above sections that BEE has progressed since 1994 and although the initial results were poor, accelerated transformation is evident in the rapid growth of the black middle class over the last few years. The interventions by government and the private sector need to be coordinated to accelerate the transformation process in South Africa even further.

The Malaysian example is sighted by Ntshengezeni (2005:3) as a valuable example to draw on as well as identifying the parallels between South Africa and Malaysia. The key to the Malaysian success can be attributed to broad based empowerment and not just the enrichment of a few as well as the economic growth that sustained these government interventions over time. In order for the successful implementation of empowerment programmes to take place, the economy needs to grow to create more opportunities for all the people of the country.

Veloso (2008: 79) argues that the current model of BEE in South Africa should be revisited as it is no longer suitable for the globalised world as these policies are not attracting the direct foreign investment that is required for the economy to grow. Policies such as those on Ownership Equity, Management Control and Employment Equity are especially impacting on the decision by companies to bring new investments into South Africa whilst alternative destinations offer more favourable policies for investors.

The theoretical support for BEE is sound as described in government policies, scorecards and sector charters. However, the implementation does not reflect the intention of broad based empowerment and several issues have been identified:

- only a small number of politically connected elite has benefitted in terms of ownership transfers
- Ernst and Young Management Services reported that in 2003, BEE deals to the value of R42,2 billion were made of which 60% accrued to the companies of Patrice Motsepe and Tokyo Sexwale.
- Fronting is a major problem and Mvelaphanda is a good example of a company that is 100% black owned (Tokyo Sexwale) while nearly all directors are white.
- The calculation of a company's BEE status is expensive and complicated in terms of all the variables
- Targets are too ambitious and do not always take the lack of available skills into account.

Dobson (2002) states that key problems such as high unemployment levels, low investment levels and low economic growth (compared to India and China) remain. The macroeconomic policies are in place and generating increased state revenue whilst the economic growth levels and investment remain low. Tourism has been identified as a key sector for future growth and lends itself to job creation opportunities in rural and urban area.

The aforementioned sections clearly indicate that economic growth is vital for BEE expansion. The next chapter (Entrepreneurship and Business Management) will focus on the individual enterprises and explain how they can contribute to BEE through sustained growth.

CHAPTER FOUR

ENTREPRENEURSHIP AND BUSINESS MANAGEMENT

4.1 Introduction

Entrepreneurship is the most powerful economic force known to man and has captured the imagination of policymakers whom now realize that growth and prosperity lie in the hands of entrepreneurs (Zimmerer, Scarborough & Wilson, 2008:xii). Successful entrepreneurship is the cohesive process of creativity, innovation, visioning, organizing and taking calculated risks. The University of Cape Town's Centre for Innovation and Entrepreneurship profess that entrepreneurship is considered to be an important mechanism for economic development through job creation, innovation and its welfare effect, resulting in burgeoning interest in entrepreneurial activity at national level (Harrington, Kew & Kew, 2009:13) According to this report South Africa has a huge shortage of entrepreneurs, especially in the formal sector.

This chapter endeavors to explain the fundamentals of entrepreneurship and will cover the definitions, personal traits of entrepreneurs and the myths associated with them. A distinction is made between entrepreneurs and business managers and how entrepreneurship evolved over time. This will enable policy makers to design interventions that will assist businesses to grow and enhance the efforts of BEE in tourism.

Creativity and risk taking are discussed as key actions of entrepreneurs whilst their behavior are analysed in terms of personal traits and risk perceptions. Richard Florida (2008:41) found that the creative class adds value to their products by the application of their intellect and creativity and are found in all disciplines ranging from entrepreneurs and business managers to science and engineering. Nieman and Nieuwenhuizen, (2009:171) concludes that finding finance or financial support for a new venture, is one of the difficulties experienced by entrepreneurs. Generating capital in sufficient quantities, at the right time, with appropriate repayment terms, and in the appropriate form is crucial to a ventures' success (Kaplan & Warren, 2007:131). This aspect will be

discussed by focusing on the financial plan and the sources of finance available to the entrepreneur. The selection of different kinds of funding is addressed by categorizing the sources into short-, medium- and long-term financing.

Entrepreneurs do not operate in isolation and they will have to know what expectations local communities have toward them as well as the regulatory environment in which they operate (Zimmerer *et al.*, 2008:524). Barr (2008:45) found that a holistic approach must be pursued in terms of local communities and that if you can succeed in bringing together a broad cross section of a community's creative class and empower them to build the type of community and environment in which they would like to live, you by default create a destination attractive to other creative people. These issues are contextualized in a South African and tour operating environment and include a discussion on business ethics, social responsibilities, as well as the regulatory environment in which the tour operator function in South Africa.

4.2 Historical perspective

4.2.1 Overview

The term entrepreneurship can be traced to the 12th century when it was used as "entreprenre" and in the 14th century as "undertaker" and "adventurer" in the business sense. In the 18th century entrepreneurs were also known as "project contractors" (Bolton & Thompson, 2004:15; Kaplan *et al.*, 2007:5).

The Industrial revolution created the opportunity for a distinction between entrepreneurs and craftsman. Those who could identify an opportunity to satisfy a need based on psychological or physical needs, and organise large scale production in a rational fashion to address this need, were called entrepreneurs. Great thinkers such as Adam Smith (1723-1790), Karl Marx(1818-1883) and Max Weber(1804-1891) described these processes and the way it could benefit society. Jean-Baptiste Say was the first to lay the foundation for the study of entrepreneurship in the modern sense and drew a

distinction between the entrepreneur and the capitalist as well as a distinction between their profits (Nieman *et al.*, 2009:5)

However, Nieman *et al.*, (2009:5) argues that it was Schumpeter(1934) who launched the field of entrepreneurship study in the Anglo-Saxon world and that a major part of his work was based on the writings of Jean-Baptiste Say from 1803-1827. Schumpeter defined entrepreneurship as an innovative process that always has to do with bringing about different use of national resources in that they are withdrawn from their traditional employ and subjected to new combinations. This is in contrast to Kirzner who defined the entrepreneur as someone alert to opportunities to make profits through exchanges (Deakins & Freel, 2009:3).

It is this definition by Schumpeter, linking innovation to entrepreneurship that is tested in the survey amongst tour operators. The results of this survey will contribute to designing appropriate support interventions that will stimulate entrepreneurial growth in the tour operating sub-sector (Chapter Six, Findings).

The industrial revolution also gave rise to the emphasis of international trade and the entrepreneurs were now associated with doing business in these uncharted waters. They took on calculated risks of ventures in unknown environments and created fast growth companies. Economists therefore ascribed calculated risk-taking to entrepreneurs who generated rewards through the ability to appropriate profits (Deakins *et al.*, 2009:3).

Entrepreneurship is also defined differently by professionals from different disciplines. Economists for example define entrepreneurship as being associated with innovation and a driving force for development. An example of this is the definition of Schumpeter: "The essence of entrepreneurship lies in the perception and exploration of new opportunities in the realm of business... it always has to do with bringing about a different use of national resources in that they are with-drawn from their traditional employ and subjected to new combinations"(Nieman *et al.*, 2009:5). Cantillon (1755)

approached entrepreneurship from a venture capital point of view while the behaviourists dominated the field in the 1950s.

Behaviourists such as Max Weber (1930) and David C. McClelland (1971) on the other hand defined entrepreneurship in terms of flexible interpretative models and a multidimensional approach. They define entrepreneurs as social beings and therefore products of their environment. Roberts, Stevenson, Sahlman, Marshall and Hamermesh (2007:15) reject this approach as being applicable to some individuals but not as universal factors that apply to all entrepreneurs. They would rather define it as a cohesive pattern of managerial behaviour than a set of individual traits (Roberts *et al.*, 2007:15).

In 1985 Gifford Pinchot created the term “Intrapreneur” to describe entrepreneurial activity inside the business where individuals champion new ideas (Deakins *et al.*, 2009: 5). This term is also referred to as “corporate entrepreneurship” and supports the actions to enhance employees’ innovative abilities within the business. In this instance the business assumes the business risk and the employee the career risk.

Schumpeter was not the only one to associate innovation with entrepreneurship and several other researchers such as Clark (1899), Higgins (1959), Baumol (1968), Schloss (1968), Lebstein (1978) concurred with this viewpoint . The economist Thünen viewed entrepreneurs as problem solvers and innovators that took on risk as creators of enterprises (Deakins *et al.*, 2009: 9). In the 1980s the management scientists became more prominent and tried to identify support systems for entrepreneurs. Baumol proposed (1993) that there are two kinds of entrepreneurs namely; the entrepreneur-business organizer and the entrepreneur-innovator. These trends in entrepreneurship definitions and perspectives are depicted in Table 4.1.

In later studies it was found that entrepreneurs were largely missing from mainstream economic theory throughout most of the last century (Deakins *et al.*, 2009:2). This was evident in mainstream economic theory at the time since it was grounded on the premise of market equilibrium and often considering entrepreneurship as deviant human

behaviour. In recent times with the information era and innovation driven by entrepreneurs, entrepreneurs have been acknowledged as essential to the development process. Baumol (2006:1) and Deakins *et al.*, (2009:3) calls for the restoration of the entrepreneur's place in economic theory and incorporate it as the fourth factor of production in the established value theory.

Table 4.1 Research trends in entrepreneurship

Period	Perspective	Topics	Authors/ Researchers
1700 -1950	Economic	what they do	Cantillon, Say, Schumpeter
1960 -1980	behaviouristic	who they are	Weber, Rotter, De Vries, McClelland
1980 - onwards	Managerial	what they do	Drucker, Mintzberg
1985 - onwards	Social	support needed	Gartnet, Welsh, Bygrave, Reynold
1990 - onwards	entrepreneurial	activities/competencies	Timmons, Versper

Source: Adapted from Nieman *et al.*, 2002:8; Deakins *et al.*, 2009:3.

Cassons as cited in Deakins *et al.*, (2009:8) regards the entrepreneur as someone that commands resources to back their risk associated decisions. Cassons ascribes the taking of calculated risks that cannot be insured, to entrepreneurs. The command of resources usually involves a vision that is conveyed to other people and motivating them to support this vision through commitment (Van Aardt, Van Aardt & Bezuidenhout, 2000:4). Entrepreneurs are also involved in building a team with different skills, abilities and backgrounds that can discover and exploit opportunities and marshal resources to pursue these opportunities (Zimmerer *et al.*, 2008:599).

Ronstadt studied the various definitions of entrepreneurship and summarized the definitions as: "Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment of providing value for some product or service. The

product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources” (Kuratko, 2009:5).

The Encyclopedia of Entrepreneurship ascribes the progress of humanity to the “agents of change” who initiates and implements material progress. These authors state that in hindsight, they recognize that these agents of change have been, and in future will most likely be, the entrepreneurs. Porter (1990:125) noted in “The competitive advantage of nations” that entrepreneurship is at the heart of economic activity. Neblett and Green (s.a.:1) conclude that entrepreneurs are key to development but that greater indigenous entrepreneurship in the tourism industry will bring more widely dispersed economic benefits as well as developmental benefits such as greater self-reliance, self-confidence and well-being, to local communities.

4.2.2 Small business and entrepreneurship

The National Commission on Entrepreneurship in the USA explains “entrepreneurial ventures” by contrasting this term with “aspiring entrepreneurs” and “lifestyle businesses”. Lifestyle businesses are also known as small businesses and they are present in all sectors of the economy. The main characteristic of a small business is that the owner is primarily focused on self-employment. The vast majority of small businesses in the USA, 99,7% falls into this category and forms the core of the American economy (Kauffman, 2002: 5 ; Zimmerer *et al.*, 2008:26).

The European Union’s Action Plan: The European agenda for Entrepreneurship states that there is a positive and robust correlation between entrepreneurship and economic performance in terms of growth, firm survival, innovation, employment creation, technology change, productivity increases and exports. According to the Euro-barometer 47% of Europeans say that they prefer self-employment but only 17% realize these ambitions. With regards to being in the process of planning for an entrepreneurial business or operating for less than three years, only 4% of Europeans, compared to 11% in the USA, achieved this goal (Commission of the European Communities,

2004:3). In 2003 the European Union accepted the new SME definitions of small, medium and micro enterprises and structured these definitions according to headcount, turnover or balance sheet values (Table 4.2). In 2005 the European Union launched the Lisbon Strategy that is now known as the Strategy for Growth and Jobs which places small firms at the heart of economic development and acknowledging that small firms and entrepreneurship are key drivers of innovation, dynamism and flexibility in developed as well as developing economies (Deakins *et al.*, 2009:29).

Table 4.2 SME classification criteria for the European Union

Category	Headcount	Turnover	Balance sheet
medium-sized	< 250	≤€ 50 million	≤€ 43 million
small	< 50	≤€ 10 million	≤€ 10 million
micro	< 10	≤€ 2 million	≤€ 2 million

Source: Commission of the European Communities (2004:1).

A further study (Wickham 2001) found that small business management and entrepreneurial ventures pursue new opportunities differently. Both will need to be entrepreneurial at the start but then small business ventures tend to stabilize in growth while entrepreneurial ventures experience fast growth (Moore, Petty, Palich & Longenecker, 2008:6). Nayab (2011) cautions that although millions of people make use of tour companies to make their travel arrangements per annum, the successful creation of a tour business will depend on the way it was started.

Carland *et al.*, (1984: 358) conclude that a small business is any business that is independently owned and operated but not dominant in its field of interest or innovative in practice. Moore *et al.*, (2008:7) states that these classifications are measures of convenience as there are many factors that influence the output in terms of number of employees, turnover, etc. specific to certain industries, sectors and even countries. What is deemed small in one industry, sector or country might not be in another. In South Africa the National Small Business Act, Act 102 of 1996 describes small businesses in terms of qualitative and quantitative criteria. The qualitative criteria relate to ownership and the small business needs to adhere to:

- Being a separate and distinct industry
- Not being part of a group of companies
- Include all subsidiaries and components when measured
- Managed by its owners
- Be a natural or legal person

The quantitative criterion classifies businesses into micro-, very small, small and medium enterprises according to the following guidelines:

- Total full-time paid employees
- Total annual turnover
- Total gross asset value (excluding fixed property)

Saayman and Slabbert (s.a.:8) defined tourism entrepreneurship in South Africa as activities related to creating and operating a legal tourist enterprise. This definition was used to determine opportunities and threats in the South African tourism industry and to indicate the shift from mass tourism (old tourism) to new tourism (Table 4.3). Deakins *et al.*, (2009:177) makes a clear distinction between persons that want to be self-employed or those that want to start a small business with the intent to expand and grow into a large business. The managerial objectives of these two types of start-up, business owners will be vastly different from each other. The majority of small businesses in the UK are created by people who want to be owner-managers and maintain a certain lifestyle. These businesses are known as lifestyle businesses (Deakins *et al.*, 2009:179).

Harrington *et al.* (2009) makes a further distinction in the Global Entrepreneurship Monitor (GEM) between necessity driven and opportunity driven entrepreneurs. The necessity driven entrepreneurs are motivated because they need to find a way to survive or sustain their current lifestyle whilst the opportunity driven entrepreneur seeks out opportunity to create fast growth businesses and to expand their businesses. Dr. Mike Harrington, the Director of the UCT Centre for Innovation and Entrepreneurship stated that necessity driven entrepreneurs rose from 21% in 2008 to 33% in 2009 in

South Africa and that this can be ascribed to the high levels of retrenchment during 2008/2009 (Munshi, 2010:1).

Table 4.3 Characteristics of old and new tourism

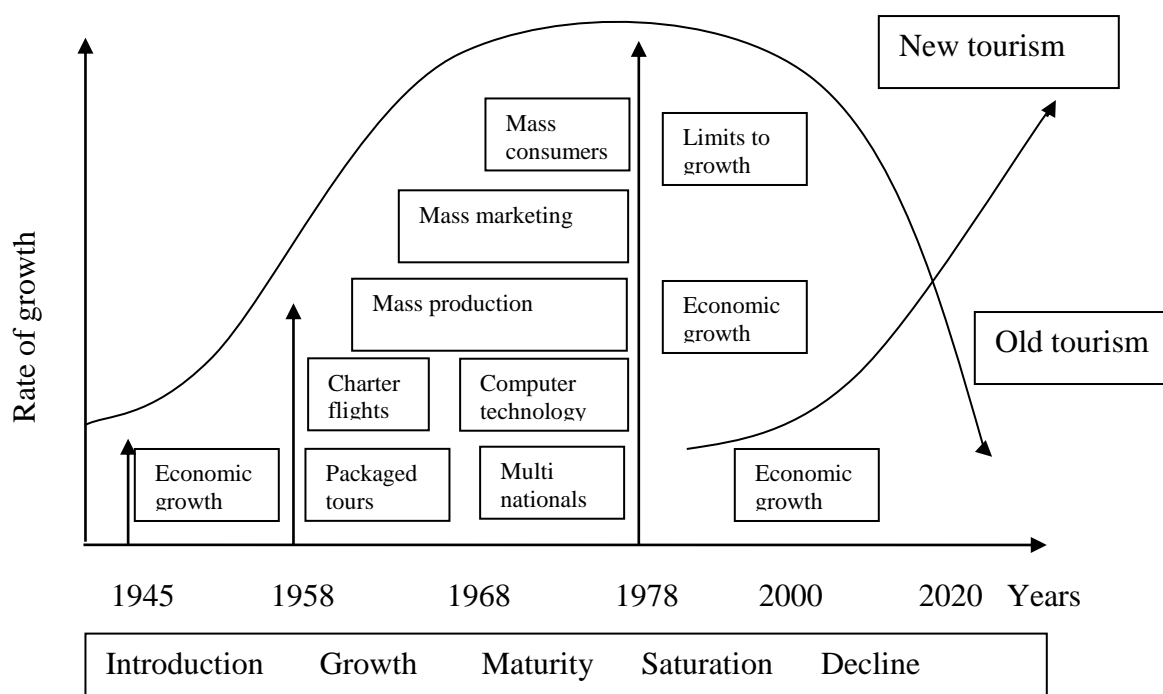
OLD TOURISM	NEW TOURISM
Massification, standardization, rigid packages	High flexibility, segmentation, diagonal integration, environmental concerns
Consumers	Consumers
Inexperienced traveller	Experienced travelers
Mass consumption	Changes in values and life styles
Search for the sun	Independent consumer
Technology	Technology
Jets and automobiles	Information systems
Computers, telephones, fax, etc.	Rapid diffusion
Limited reservation systems	Extensive adaptation
Accounting systems	Integrated technological systems
Production	Production
Low fuel prices	High fuel prices
Intensive hotel construction	Flexible production
Charter flights	Integrated marketing
Tourist packages	Integrated product development
Airline oligopolies	Innovation
Multi-national hotel chains	Consumer-oriented
Management	Management
Standardised service	Personalised attention
Holiday Franchises	Field management
Promotional prices	Innovative pricing
Mass marketing	Market segmentation
Environment	Environment
Peace and prosperity	Flexibility in vacations
Government promotions	Involvement of host countries
Incentives to invest	Disappointed with mass tourism
Paid vacations	Environmental pressures
Regulation of air transport	Deregulation of air transport

Source: Adapted from Saayman and Slabbert (s.a.:5).

The challenge for investors and authorities is to determine beforehand if a business is a lifestyle or fast growth business. Once a business has achieved fast growth it is easy to measure this growth in terms of increased turnover, employment, etc. It is also observed that only a few fast growth businesses is responsible for the bulk of new employment opportunities created in a specific industry or region and that by rule of thumb only 4 out of a 100 small firms will be responsible for 50% of employment created over a ten year period (Deakins *et al.*, 2009:179).

Several authors such as Poon (1993) and Frommer (1996) described the shift from “old” tourism to “new” tourism and highlighted the move away from mass, standardized and packaged tourism of the late ‘70s to a sophisticated, segmented and customized tourism offering. This shift is illustrated in Figure 4.1 and refers to the tourism life cycle for old and new tourism.

Figure 4.1 The Tourism Life Cycle



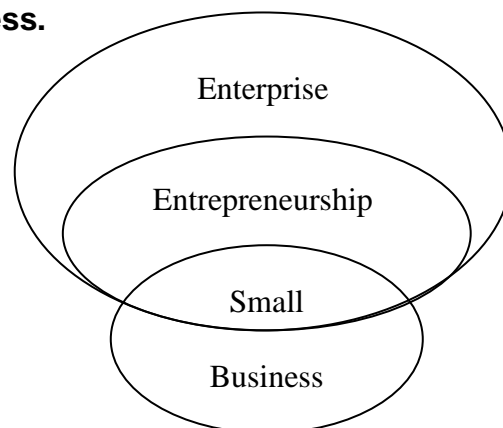
Source: Adapted from George (2001:322) and Zimmerer *et al.*, (2008:303).

This shift in demand requires industry to be able to super segment the demand side of the market and to provide tourism offerings that are in line with current client needs and traits. Nieman and Bennett (2002:58) and Moore *et al.*, (2008:20-21) identified the following aspects as common to entrepreneurship after studying several definitions:

- Identify an opportunity
- Innovation and creativity
- Getting resources
- Creating and growing a venture
- Tolerant of risk
- Being rewarded
- Leading and managing the business

The term entrepreneurship refers to the study of entrepreneurial behaviour and attempts to describe the study of the overall entrepreneurial process. Niewenhuizen reasons that entrepreneurship should now be used to designate a comprehensive understanding of the entire entrepreneurial process and the multidisciplinary nature of this process (Nieman *et al.*, 2009:8). Breen (2004:12) tries to indicate the boundaries of the terms Enterprise, Entrepreneurship and Small Business by depicting them as overlapping areas of operation. These boundaries are depicted in Figure 4.2.

Figure 4.2 The relationship between Enterprise, Entrepreneurship and Small Business.



Source: Breen (2004:12).

Enterprise is defined by Fairclough (as cited in Breen, 2004:2) as something one does; a set of personal qualities; or a business venture whilst Kearney (1996) reviewed the literature in this field and concluded that enterprise is the capacity and willingness to initiate and manage creative action in response to opportunity or change, in an attempt to achieve added value (Breen, 2004:3).

Halligan (1989) as cited in Breen (2004:4) reported on a series of definitions from noted academics that variously describe entrepreneurship as reform, innovation, wealth creation and risk taking. Small business definitions are confined to a business with specific reference to the size of the business in terms of number of employees or sales turnover (Breen, 2004:5). In a study of Australian adults, the researchers Mozell and Midgeley (1995) found that people were keen to have their own businesses but due to disgraceful behaviour of corporate entrepreneurs, the term “entrepreneur” has a negative connotation. They recommend that a clearer understanding of these terms is instilled amongst the public, to ensure public support for government policies which focus on these labels.

The researchers Habidy and Coyle found that almost all governments have entrepreneurship programmes that are directed at a wide range of small to medium businesses. This might not be the right approach as only 14% of all start –ups expected to create 20 or more jobs (Habidy & Coyle, 2010:75). They found that the Global Entrepreneurship Monitor (GEM) indicated the incidence of entrepreneurship as twice as high in emerging markets as in the developed world. In the developing world, 10 out of every 100 people interviewed for the GEM, indicated that they were launching businesses with six of these being opportunity driven whilst in the developed economies only 5 out of every 100 people interviewed indicated that they were launching new businesses with four of these being opportunity driven.

4.3 Schools of entrepreneurial thought

There are several schools of thought and Kuratko (2009:9) identified the following major schools of thought: Environmental School, Financial/Capital School, Displacement

School, Entrepreneurial Trait School, Venture Opportunity School and Strategic Formulation School. The first three schools of thought include the external environment and although the individual entrepreneur has very little influence on this environment, they have to operate within these sometimes hostile environments.

The Environmental School of Thought explains the influence of the external environment on the formulation of entrepreneurial desires and includes institutions, values and beliefs and the collective influence on the creation of entrepreneurs. This environment is known as the sociopolitical environment and can have a positive or negative influence on the moulding of entrepreneurs.

The Financial/Capital School of Thought focuses on the ability to attract capital and depends on various factors such as the type of business, the location of the business, etc.(Bygrave & Zacharakis, 2008:346). This capital can include start-up capital and growth capital needed through various stages in the business life cycle. The entrepreneurial venture is analyzed according to financial management principles and the presence of financial decisions throughout the existence of the enterprise is presented in Table 4.4.

Table 4.4 Financial analysis focus

Life cycle stage	Financial consideration	Decision
Start-up/acquisition	Seed capital Venture capital sources	Proceed /abandon
Ongoing	Cash management Investments Follow on venture capital Financial analysis	Maintain, increase or reduce size
Decline/succession	Profit question Harvesting investments Corporate buyout Succession question	Sell, retire or dissolve operations

Source: Adapted from Kuratko (2009:10) and Bygrave & Zacharakis (2008:403)

The Displacement School of Thought focuses on group phenomena that affect (positive or negative) the decision to engage in an entrepreneurial venture. Brophy and Shulman (1992) cited three major types of displacement:

- Political displacement

The factors pertaining to this displacement can include political regimes that reject free enterprise or government regulations that limit individuals or whole industries to be entrepreneurial. The historical Apartheid political dispensation of South African is a good example of regulation that displaced black people and prevented them from owning for example tour operating businesses outside their “home lands” areas.

- Cultural displacement

This displacement refers to individuals precluded from certain professions or industries. Examples include: Affirmative Action, Job Reservation, Gender Discrimination, etc. During the Apartheid years in South Africa, black people were relegated to lower order jobs by law. The result is that very few black people owned or operated tourism businesses in 1994 when the first democratic government was elected.

- Economic displacement

This displacement is concerned with economic recessions and depressions and the associated job losses, capital shrinkage and poor returns on investments. This loss of jobs has been evident in the global tourism industry since the 2008 financial global crisis resulted in declining tourism activity. The announcement of tour operators such as Holidays 4U from the UK closing down (Global Daily Business, 2011:1) as well as the woes of 1Time Airlines in South Africa bears testimony to job losses in tourism.

The following three schools of thought focus on the internal environment and the factors that the potential entrepreneur can control or direct to reach the desired outcomes.

The Entrepreneurial Trait School of Thought tries to identify the unique characteristics associated with entrepreneurs. Kuratko (2009:11) argue that achievement, creativity, determination and technical knowledge are factors usually associated with successful entrepreneurs. Wickham (1998:21) found that technology based entrepreneurs take advantage of new scientific developments and offer the benefits to the world.

These traits can be emulated and therefore entrepreneurship can be taught. The content of the training is what is important and if these traits are established and supported, it could lead to entrepreneurial success. In South Africa the technology take up is slow but mobile technology is creating an opportunity for new technology solutions. The GEM (2009) indicate that 83,3% of South Africans subscribe to mobile networks and creates an ideal opportunity to encourage entrepreneurship through technology (www.gsb.uct.ac.za/newsletter).

The Venture Opportunity School of Thought focuses on the identifying and developing of opportunities that can become viable ventures. According to this school the entrepreneur must be creative and able to read opportunities in the market and develop the right idea at the right time, for the right market segment.

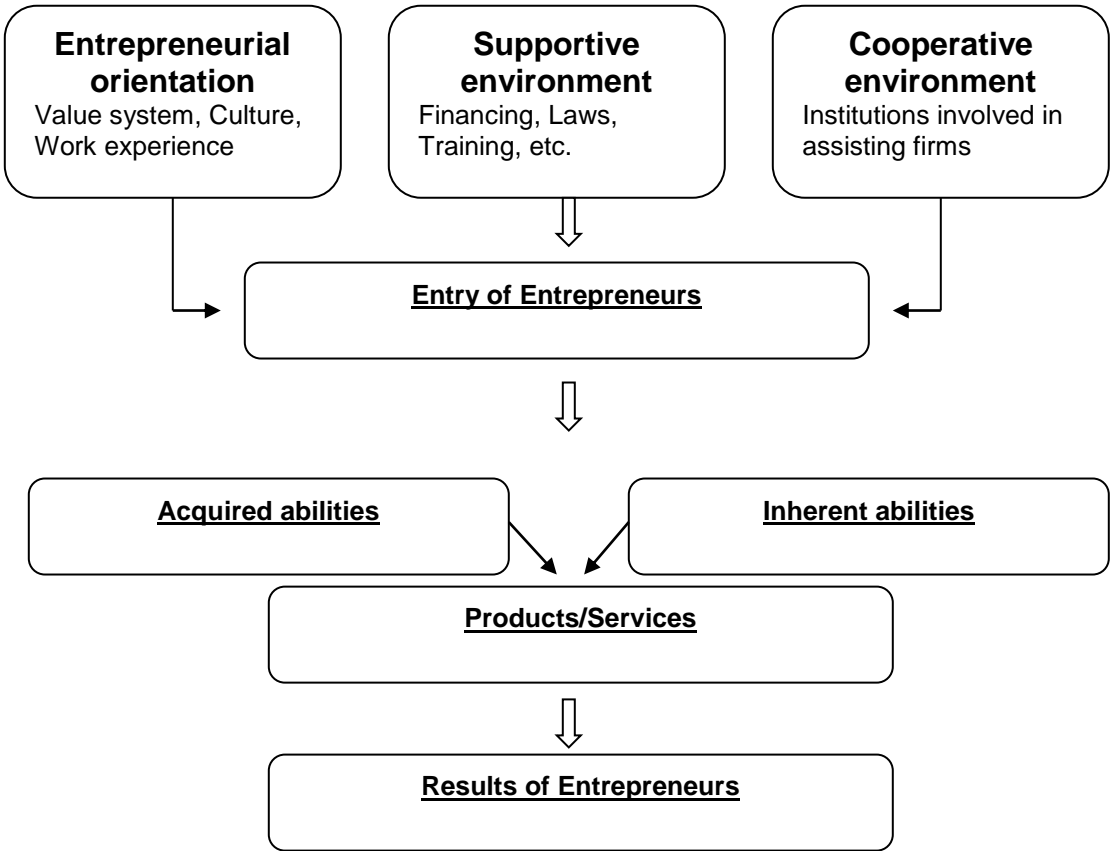
The Strategic Formulation School of Thought emphasize the need to plan with a strategic focus on the future. This strategic formulation can leverage unique elements that include:

- Unique markets
- Unique people
- Unique products
- Unique resources

Steiner (1979:3) states that this strategic formulation is not a separate action but inextricable interwoven in the breadth of management functions and therefore requires an interdisciplinary approach.

In the past entrepreneurs were seen by the community as robber barons who exploited workers for their own success, while their compatriots thought of them as captains of industry (Van Aardt *et al.*, 2002:4). Today entrepreneurs are seen as the heroes of free enterprise and the creators of wealth through innovation and creativity (The Economist, 2009: 4). The dependence of entrepreneurs on suitable external environmental factors is clearly depicted in Figure 4.3, which reflects the important elements needed to support entrepreneurship.

Figure 4.3 A model for entrepreneurship



Source: Nieman et al., 2009:11

4.4 Myths about entrepreneurship

Over time several myths have developed in respect of entrepreneurs and the authors Gibson (1999), Bezuidenhout (2000), Van Aardt (2000), Hough (2003), Nieuwenhuizen (2003), Hodgetts (2004), Kuratko (2009), Nieman (2009), denounce these in the following way:

4.4.1 General myths

The Entrepreneurs-are-Born Myth claims that entrepreneurs are natural born creatures that were blessed with entrepreneurial skills and thinking. They deny the fact that people can be trained to think creatively and become entrepreneurs over time (Kuratko, 2009:5). The Anyone-can-Start-a-Business Myth ignores the entrepreneurial ability to identify and develop opportunities that are innovative and new. Entrepreneurs have no existing business model to follow and therefore they have to take calculated risks in starting their business. The Entrepreneurs-are-Gamblers Myth arises due to the fact that entrepreneurs operate in uncharted waters and are seen as gamblers. This is not the case as successful entrepreneurs analyse the market to determine opportunities and possible returns before they decide to take calculated risks. They are therefore risk assessors that take calculated risks. (Gibson, 2004:11).

The Entrepreneurs-Go-It-Alone Myth assumes that entrepreneurs go it alone while in reality they are very good at guiding entrepreneurial teams to pursue the vision of the entrepreneur and to gain business partners and social networks (The Economist 2009:5). The Independent-Boss Myth states that entrepreneurs are independent and their own boss who can do as they please. The reality is that entrepreneurs cannot do business in isolation and they become dependent on employees, suppliers and clients that dictate how their demands are met. The Entrepreneurs-Work-Harder Myth is denounced by the modern manager who works for a big corporation and work harder and longer hours to achieve the organizations goals.

The Entrepreneurial-Sacrifice Myth implies that entrepreneurs suffer from higher stress levels than managers and sacrifice all their spare time to establish the business. Entrepreneurs are in fact in control of their own time and do not suffer from career stress that managers are subjected to. New-Business-often-Ends-in-Failure Myth imply that entrepreneurs will fail in some attempts but that the successes exceed the failures and the returns reflect this.

Money-is-the-Most-important-Start-up-ingredient Myth is dismissed by the fact that that the idea is the most important ingredient and that the money will be made available if the idea is accompanied with a sound business plan and a good management team. The myth that entrepreneurs are motivated by money alone is dismissed by their need to have their ideas and innovations successfully implemented (Kuratko, 2009:6).

Good-Ideas-raise-Venture-Capital Myth is dismissed by the fact that venture capital is not attracted by an idea alone but by the team that manage the project. Not all ideas are good business opportunities and will not attract venture capital (Van Aardt, *et al.* 2000:12).

The Venture-Capital-Firms-Grab-Control Myth is only perceived to be the case as Venture Capital providers are looking for a high return because they take bigger risks, by funding entrepreneurial ventures, than with conventional business funding. The entrepreneurial business operates in unfamiliar territory and therefore greater risks are endured. The providers of capital are therefore keen to receive feedback on a continuous basis but they do not control or manage the business. The vast majority of money for start-ups comes from personal debt and the three f's, namely friends, fools and families (The Economist, 2009:5).

4.4.2 Myths of Franchising

Intermediaries in tourism are known for creating franchises (Thomas Cook, Thompsons, etc.) and therefore the following myths around franchising are mentioned briefly, as identified by Zimmerer *et al.*, (2008:199):

- It is the safest way to go into business as it never fails. This is not true although the rate of success is higher than standalone businesses, many franchises do fail.
- I will be able to open my franchised business for less than what the franchiser indicated. Reality shows that in many cases it will cost more to open the new franchise than originally estimate.
- The bigger the franchise group, the bigger my success rate will be. Bigger groups struggle to maintain their growth rates as products and markets could be in the saturation stage and new, high yield opportunities are scarce to come by.
- I will use only part of the franchisers system (80%) and improve it with my own experience. When you buy into a system it makes sense to use it as a system and not part of it as this leads to chaos.
- All franchises are more or less the same. Each franchise is different and a franchisee needs to select a system that meets their needs and suites their personality.
- In a franchise you don't need to be hands-on. The best results are obtained when the owner is a hands-on franchisee.
- Anyone can be a successful franchise owner. Franchise businesses do not fit all people's personal profiles and the free thinkers find it difficult to adhere to the formalized systems and procedures.
- Franchising is the cheapest way to get into business. The buying of a franchise can be very high and strict financial screening applies.
- The franchiser solves my business problems in turn for the ongoing royalties. The franchiser will provide training and system support but not run your business for you.
- The franchisee can run the business in any way once it is up and running. The Franchiser has strict systems and legal agreements that have to be adhered to.

These myths necessitate an understanding of the characteristics of entrepreneurs and how these characteristics influence their thinking and behavior. Section 4.5 includes a discussion on these characteristics as identified by researchers across the world.

4.5 Characteristics of entrepreneurs

A review of literature associated with entrepreneurship, revealed an extensive list of characteristics ascribed to entrepreneurs. The findings of Hornaday, whom examined several research sources on characteristics of entrepreneurs, are depicted in Table 3.4. This table does not reflect all the characteristics attributed to entrepreneurs but list those most often attributed to entrepreneurs (Kuratko & Hodgetts, 2004:115, Kaplan *et al.*, 2007:13, Moore *et al.*, 2008:19, Zimmerer *et al.*, 2008:5, Deakins *et al.*, 2009:10, Kuratko, 2009:31). The inability to determine the exact personality traits and characteristics of entrepreneurs is, according to Nieman (2009:32) ascribed to the fact that entrepreneurs and business opportunities are so diverse and demand different traits. A study conducted by researchers in the adaptation of the business concept of South African, historically disadvantaged owner/managers revealed that three of the most consistent characteristics of entrepreneurs are tolerance of ambiguity, a locus of control that is more internal than external, and a willingness to take calculated risks.

Van Zyl (2007:3) concur in a study on key performance predictors in tourism enterprises, that leadership, flexibility and decision making characteristics apply to the owners of small and micro enterprises in tourism. These correspond to the findings of Moore *et al.*, (2008:19) and Kuratko *et al.* (2004: 115) as depicted in Table 4.4. In order to find out if there are synergy between these facts and those that apply to tour operators, the researcher included questions on tour operator skills and training needs in the 2010/11 survey (Chapter Six).

The latter will be discussed in section 4.8.2 Risk Perceptions and Entrepreneurship. Nayab (2011) concluded that although starting a tour company does not require professional qualifications, the following are required in order to be successful:

- Ability to deal with uncertainty
- Ability to handle pressure
- Ability to strike up rapport with people
- An awareness of emerging trends.

He concludes by stating that the above factors alone will not be sufficient and that hands on knowledge about running a business in this field, is required (Nayab, 2011:1).

Table 4.5 Characteristics of entrepreneurs

Confidence	Ability to make decisions quickly
Perseverance and determination	Responsibility
Energy, diligence	Foresight
Resourcefulness	Accuracy, thoroughness
Take calculated risks	Cooperativeness
Dynamism, leadership	Profit orientation
Discipline	Ability to learn from mistakes
Need to achieve	Execute ideas
Versatility; knowledge of product, market, machinery, technology	Pleasant personality
Creativity	Egotism
Ability to influence others	Courage
Ability to get along with people	Imagination
Initiative	Perceptiveness
Flexibility	Toleration for ambiguity
Intelligence	Aggressiveness
Orientation to clear goals	Capacity for enjoyment
Positive response to challenges	Efficacy
Independence, honesty, integrity	Commitment, mature, balance

Source: Adapted from Kuratko *et al.*, (2004:115), Moore *et al.*, (2008:19), Kaplan *et al.*, (2007:13), Zimmerer *et al.*, (20085), Deakins *et al.*, (2009:10).

4.6 Motivation of Entrepreneurs

The motivation of entrepreneurs to start-up their businesses and the factors that motivate them to sustain these efforts, are crucial to stimulate further growth in entrepreneurship. The researcher, Bradley Johnson states in his review of achievement motivation that it remains important to study the role of individuals since they are the energizers of the entrepreneurial process (Johnson 1990:39). At this point in time psychological characteristics have not generated a profile of an entrepreneur that is widely agreed on.

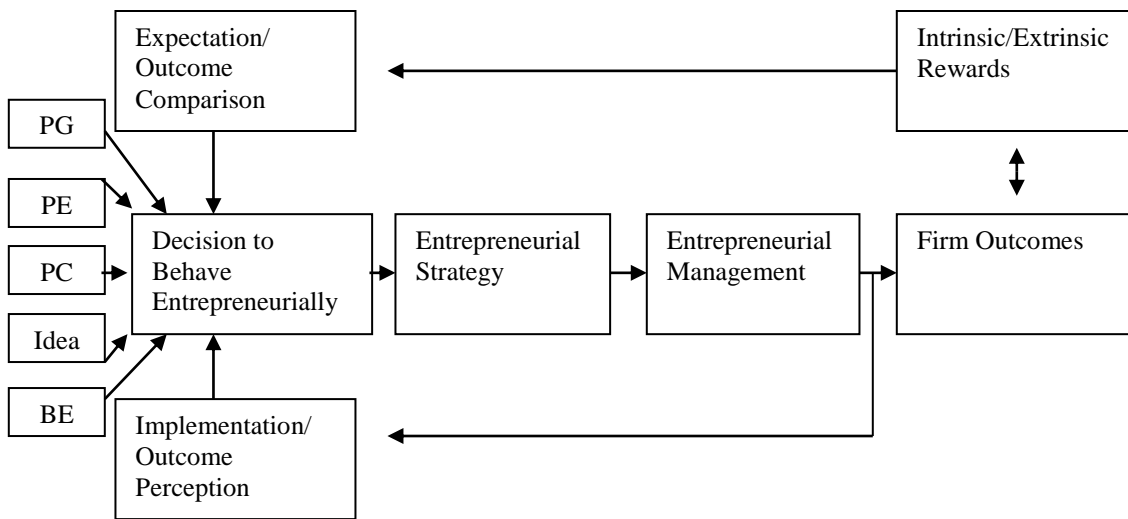
Cooper and Kendall (1995:439) states the importance of the individuals goals, attitude and back ground as determining factors that will influence the entrepreneur's satisfaction and willingness to sustain the venture. With this approach in mind, Naffziger, Hornsby, Jeffrey and Kuratko (1994:24) proposed a research model to study the motivational process entrepreneurs' experience.

This model acknowledges that the behaviour of entrepreneurs is determined by the interaction of several factors, such as personal characteristics, the business environment, the personal environment and the viability of a business idea. The entrepreneur also compares the expected outcome, as perceived by the entrepreneur, to that of personal expectations.

The next step would be to determine the entrepreneurial behaviour that would be needed to generate these expected outcomes. The final step in this model is to compare the expected outcomes to the actual outcomes generated by the entrepreneurial behaviour. This model is depicted in Figure 4.4.

Entrepreneurial behaviour is strongly influenced by the results of these comparisons and will determine if entrepreneurial behaviour is positively reinforced or discouraged in future endeavours.

Figure 4.4 A model of entrepreneurial motivation



PC = Personal Characteristics

PE = Personal Environment

PG = Personal Goals

BE = Business Environment

Source: Adapted from Kuratko (2009:45).

4.7 The creative thinking process

The word “creativity” is derived from the Latin root *creare*, which means to produce or form something new. Creativity is a catalyst for new inventions and is evident in the process from invention stage to innovation and implementation stage. Cougar (1995) as cited in Nieman (2000:48) defined creativity in a generally accepted way, as:

A product of a thinking process, that has novelty and creates value, is unconventional, consumes time and energy, and integrates the problem definition in the thinking process. Zimmerer *et al.*, (2008:43) defines creativity as the ability to develop new ideas and to discover new ways to address challenges and opportunities. Entrepreneurs rely on their creative abilities to identify new and innovative opportunities in the market and need to be aware of the following thought process that governs this behaviour:

- **Recognising Relationships**

Many innovations and entrepreneurial ventures are based on identifying new and creative relationships among objects, processes, materials, technologies and human resources. All the above items are in relation to each other and entrepreneurs seek the potential for new and different relationships.

- **Developing a Functional Perspective**

From the relationship approach the natural expansion is to identify a functional perspective of these items that are in relation to one another. Creative people tend to view people and input factors as building blocks to achieve their goals and objectives.

- **Brain utilization**

Experts on creativity and innovation, such as Tony Bushan, have emphasized the development of skills associated with both hemispheres of the brain (Buzan & Buzan, 1995:33). They proclaim that the right brain hemisphere assists in the understanding of analogies, imagining things and synthesizing information while the left brain hemisphere assists you to analyse, verbalise and use rational approaches to explain your environment. These two brain hemispheres are connected by the corpus callosum and should be utilized as two complimentary hemispheres that form part of one creative brain.

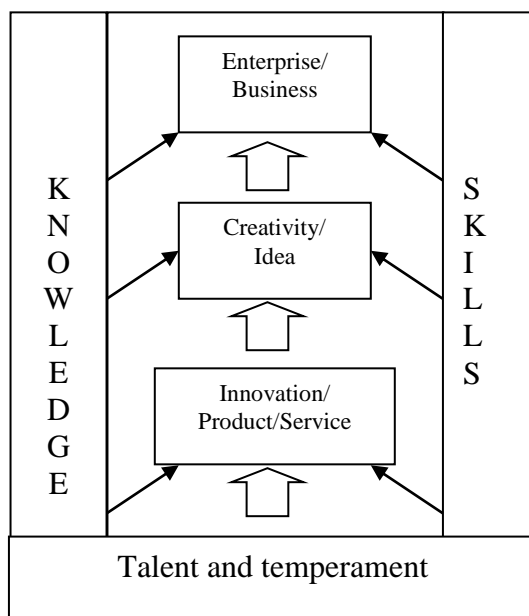
- **Eliminating Muddling Mind-sets**

Mental blocks and the inclination to focus on the negative aspects of a new or different idea due to the psychological discomfort associated with change impede creative thinking.

Tribe (2010) concludes that creativity is about imagination and seeing things in new ways. Examples of these include tour packages that expose tourists to fusion cuisine consisting of new combinations and presentations as well as new tourism product combinations (Tribe, 2010:160). The relationships between creativity, innovation and entrepreneurship are depicted in Figure 4.5 with talent (temperament), knowledge and

skills as the underlying support factors (Bolton *et al.*, 2004:260). Zimmerer *et al.*, (2008:44) describes entrepreneurship as the result of discipline and applying a systematic process of creativity and innovation to address the needs and opportunities in the marketplace.

Figure 4.5 From idea to business



Source: Adapted from Bolton *et al.*, (2004:260).

4.7.1 Idea generation

Business opportunities exist in the world around us but we need to be focused on identifying them before we will recognize them all. There is a difference between a business idea and a business opportunity. An idea can become a business opportunity when it is something that people want or need that is durable, timely and adds value to existing goods and services or to peoples' lives (Botha *et al.*, 2006:34).

Businesses continuously rely on ideas to keep them growing or maintaining their levels of success and a continuous cycle of generating ideas should form part of any business (Gibson, 2004:1). Ultimately the creative process for an entrepreneur must lead to a feasible business opportunity. These opportunities are initially problem based and

engage the entrepreneur through creativity and the thinking process in order to solve these problems. This creative problem-solving process consists of consecutive steps that include problem identification, problem definition, idea generation, idea fusion and idea judgment (Nieman *et al.*, 2009:60).

The creative problem-solving process is depicted in Table 4.5. This is the starting process of entrepreneurship and creativity seems to come out of the blue as challenges are faced and solutions constructed. In so doing creativity creates joy to the entrepreneur and becomes the reason for continued success (Bolton *et al.*, 2004:258). The creative process is identified as a seven step process that can result in finding innovative ideas in split seconds or over a period of time. These steps include the preparation step that prepares the mind for creative thinking and include work experiences, training sessions and formal education (Zimmerer *et al.*, 2008:62).

The second step comprise of the investigating step that seeks to understand the problem or challenge at hand and what expectations are in solving the challenge. The third step involves transformation of the research conducted and understanding the similarities and differences in the body of information. This will require convergent thinking that see the connections between data and events as well as divergent thinking that entails seeing the differences between different data and events.

The fourth step is the incubation step that draws on the power of the subconscious and lets the solution or idea surface over time. This step needs time for relaxation and reflection that will enhance the creative thinking process. The fifth step is that of illumination when out of the blue a solution jumps at you. This is the culmination of all the preceding steps into an idea or solution to the challenges or problems you were faced with. The sixth step includes verification of the idea and if it suites the specific problem in terms of affordability, satisfying a need and the ability to implement it. This step is also characterized by stages of conducting experiments, building prototypes, etc. The last step is to implement your idea into reality. This is the trade mark of an entrepreneur, as an implementer of ideas and innovation (Zimmerer *et al.*, 2008:67).

Table 4.6 The creative problem-solving process.

PROCESS	DESCRIPTION	EXAMPLE
1 – Problem identification	Screening the environment for any problems	Restaurants; Shopping centers; Workplace
2 – Problem definition	Analyse the context of the problem; cause of problem	Poor service in restaurant due to lack of training
3 – Idea generation	Brainstorming; generating high quality solutions	Recruiting skilled workers; Short courses; Coaching
4 – Idea fusion	Find more practical solutions	Short courses in customer relationship management versus coaching
5 – Idea judgment	Evaluate the most practical and suitable solution based on critical criteria	Design short course in customer relationship management for restaurant personnel

Source: Niemand *et al.*, (2009:60).

Barr (2008:45) concludes that efforts to embrace and stimulate creativity in Carrollton, Georgia resulted in important lessons learnt. Firstly you should never underestimate the impact that a small group of thoughtful, committed citizens can have. Furthermore the design must be of a holistic nature and include as many locals as possible. Lastly, the efforts and processes of these committed citizens must be nurtured and sustained year after year, until creativity becomes an integrated part of the community.

4.7.2 Innovation

Innovation is the process of changing and improving current technology and methodology and for tourism attractions it is vital to remain ahead of the competitors and take current and expected trends into consideration (Page, 2009:369). It can also include an invention that is the creation of a new product, service or process that is novel and untried. Baumol (2006:4) states that the most critical issues to examine are

the determinants of innovation and growth as well as the means by which they can be preserved and stimulated. The Economic Development Administration of the USA concluded at their 2007 symposia that innovation is one of the greatest sustainable competitive advantages of the United States of America. They noted that every 20 years a new industry emerges as the leading agent of economic growth and that currently it is emerging industry clusters that are prominent indicators of where innovation occurs (EDA, 2007:5). Different types of innovation can be identified according to a product/market match or in terms of originality. In terms of the product/market match the following types can be identified (Van Aardt *et al.*, 2000:19; Page, 2009:400):

- Developing new products for existing markets
This type of innovation is also known as product development and requires large-scale research and development resources. The establishment of international hotels in South Africa after 1994 is an example of new products that were made available to the existing tourists at the destination.
- Developing new markets for existing products
This type of innovation is also known as market development and includes the introduction of products and services to new geographical and demographical markets. The acceptance of South Africa back into the international community after the fall of Apartheid made it possible to market South Africa to markets that were previously inaccessible.
- Developing new products for new markets
This type of innovation combines product and market development activities and is the most exorbitant in terms of resources. The building of international conference centers in South Africa made it possible to bid for international conferences that were previously not possible due to a lack of infrastructure and inadequate services.

- Developing existing products for existing markets

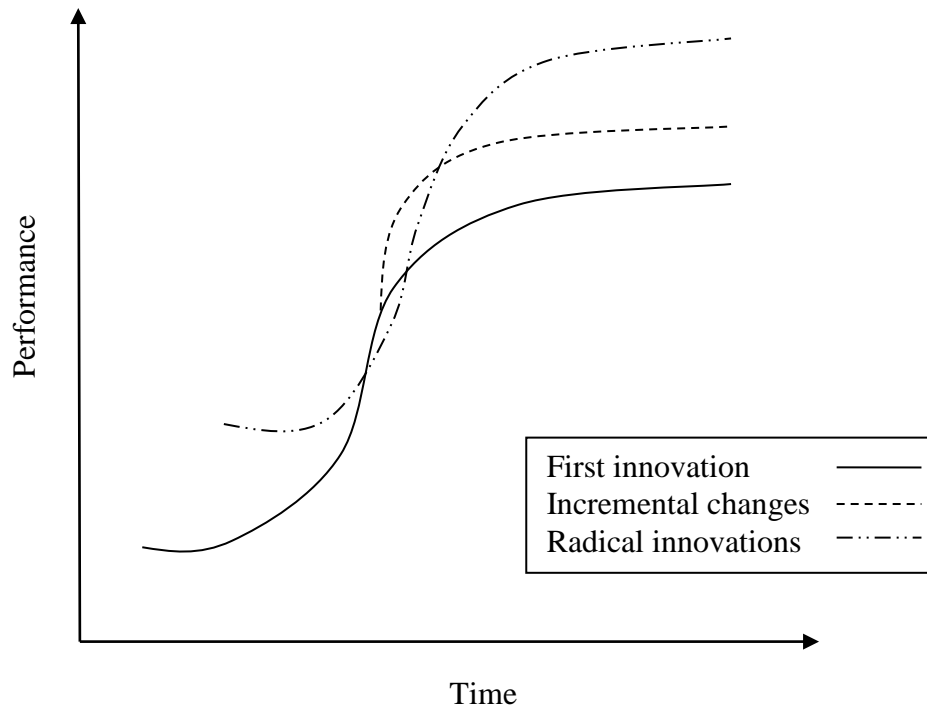
This innovation does not change the existing product but adds value to the existing product. This value can be in terms of producers, processes, distributors, retailers or consumers. Tourism product owners have incorporated information communication technology to showcase and market their establishments to new as well as to their existing clients. This technology has made it possible for tour operators to sell packages to their clients by including visual information and data on their tourism offerings.

The Global Entrepreneurial Monitor (2008) for South Africa describe innovation as an integral part of entrepreneurship that develops with the evolvement of the industrial sector and in so doing creates opportunity for innovative entrepreneurial activity (Harrington *et al.*, 2009:10). This innovation can take the form of introducing new products or services to the market, compete in new ways and use technology in new and creative ways to create value for customers.

Innovation can also be segmented into incremental and radical innovations (Kaplan *et al.*, 2007:25). Incremental innovations refer to the process of continuous improvements in the presentation, production and delivery of products and services. Radical innovations refer to major changes that satisfy the customers' needs in a new way or creating a new need through innovation. The S-curve in Figure 4.6 depicts the rate of performance over time and how initial innovations go through a stage of experimentation with incremental changes improving the delivery.

This process of continuous improvement continues until a plateau of improvement is reached, exceeding the predicted plateau of the original innovation. In order to outperform this innovation of incremental changes, a new innovation is needed that will surpass the performance of the previous innovation and in the process capture substantial market share from the original innovation due to the radical change or innovation implemented.

Figure 4.6 The S-curve of innovation



Source: Kaplan *et al.*, 2007:25.

Innovation evaluated in terms of originality can generate the following four types of innovation:

- **Inventions**
This is the creation of a new product, service or process that is novel and untried.
- **Extensions**
This refers to the expansion of an existing product, service or process in a way that it is applied differently.
- **Duplication**
This is the replication of an existing product, service or process by the entrepreneur in a way that it enhances the competitive nature of the business.

- Synthesis

This refers to the combination of existing products, services or processes in a new application.

Research has shown that there are different causes of innovation and Porter (1990:45) identified the following:

- New technologies (e.g. ICT to market tour packages)
- New or shifting buyer needs (e.g. Responsible Tourism clients)
- The emergence of a new industry segment (e.g. emerging black middle class in South Africa)
- Shifting input costs or availability (e.g. rising oil and fuel costs)
- Changes in government regulations (e.g. improved noise pollution regulations)

Kuratko *et al.*, (2004:151) states that innovation is a tool used by entrepreneurs to exploit change rather than to initiate change. In tourism the change in consumer demand for “Green Tourism” or “Responsible Tourism” creates an opportunity for innovation (Deakins *et al.*, 2009:270). There are some instances where entrepreneurs initiated change, but this was a rare occurrence. The above mentioned sources of innovation are supplemented by the following:

- Unexpected occurrences
- Incongruities
- Process needs
- Industry and market changes
- Demographic changes
- Perceptual changes
- Knowledge-based concepts

Within a tourism business there are three stages that innovation comprises of namely, invention, application and adoption (Page, 2009:401). The Global Entrepreneurship Monitor – 2005 measured customer-, competitor- and technology orientated innovation

in the South African market place in an attempt to determine the innovation propensity of South African firms. In terms of customer-orientation innovation also known as product novelty, the majority of businesses innovate relatively little and the group who offer products that are new to all customers have increased from 9% in 2003 to 15% in 2005. This figure increased to 21,7% for established businesses in the 2008 GEM report (Harrington *et al.*, 2009:28).

Differentiation from competitors was also low as the proportion of manager-owners who face many competitors and potentially more intense competition has increased from 44% in 2003 to 55% in 2005. This figure has declined to 47,1% for established businesses in 2008 and only about 10% are highly differentiated from their competitors (Harrington *et al.*, 2009:28). Innovation in terms of incorporating new technology (technology introduced less than a year ago) was low and has dropped from 28% of owner-managers in 2003 to zero % in 2005. This might have been due to a wait and see attitude towards the latest innovations or a lack of skills associated with the new technology. This figure increased to 13,3% in the 2008 GEM report for established businesses and to 24,7% for Total Early stage Entrepreneurial Activity (TEA) businesses.

The Global Competitiveness Report for 2008-2009 confirms these findings and rates South Africa as mediocre in terms of technology readiness (Harrington, Kew & Kew, 2008:28). Hopkins (2010) conclude that this gap between companies that embrace technology and those that do not, has widened since 1995 and results in a performance gap between them.

Positive trends have been identified by Rogerson and Visser (2007) in finding that in the context of Sub-Saharan Africa, post-apartheid South Africa is emerging as a leader and innovator in terms of strategic planning and promotion of domestic tourism to cities and towns. Given that technology is an important productivity enhancer, it is crucial that South Africa put measures in place to enhance use of new technology by entrepreneurs and improve on the mediocre performance in terms of technology readiness by entrepreneurs. Jack Gido, the director of Economic and Workforce Development at

Pennsylvania State University identified the following critical factors for sustaining a regional innovation economy (EDA, 2007:6):

- A long term view, commitment by multiple stakeholders and strong leadership;
- Focusing on clusters and strategic sectors, capitalizing on intellectual property and regional assets;
- Incentives for universities to engage in technology transfer and commercialization;
- Adequate human capital, risk capital and entrepreneurial support services.

Innovation can also be applied to the business model of a company but have two inherent problems in generating the new growth associated with the new model. Firstly, there is a lack of definition in terms of the dynamics and processes of business model development due to limited research in this field. Secondly, few companies understand their existing business model well enough and are therefore not aware of when to leverage of their existing strengths or when to rely on a new business model (Johnson, Christensen & Kagermann, 2008:52).

The executive search firm Spencer Stuart, indicates that more than two thirds of the directors at leading global companies, cite innovation as critical for long-term success. They postulate two questions in this regard that need to be addressed by businesses: how can we sustain innovation; and do we have a plan to develop leaders that can achieve this goal? (Cohn, Katzenbach & Vlask, 2008:64).

The current financial crisis will put more pressure on businesses to consider these questions and Professor Christensen at Harvard Business School believes that the current financial crisis will not deter innovation but rather force breakthrough innovations as the greatest innovations occurs when tension is the greatest and resources limited (Mangelsdorf, M.E., 2009:68). A concern is the fact that South Africa has slipped in the rankings of innovation, in the World Economic Forum's 2009-2010 Global Competitiveness Report from 36 to 41st out of 133 nations and to 43rd in the 2010-2011 rankings (World Economic Forum, 2011:16).

4.7.3 Enterprise development

Entrepreneurship is the process of taking an initial idea and developing it into a product or service, and then to continuously applies innovation as an enterprise that creates value (Bolton *et al.*, 2004:260). Identifying such an opportunity is the process of assessing if a product or service can generate the necessary earnings on the resources needed to produce and market the product or service (Nieman *et al.*, 2009:64).

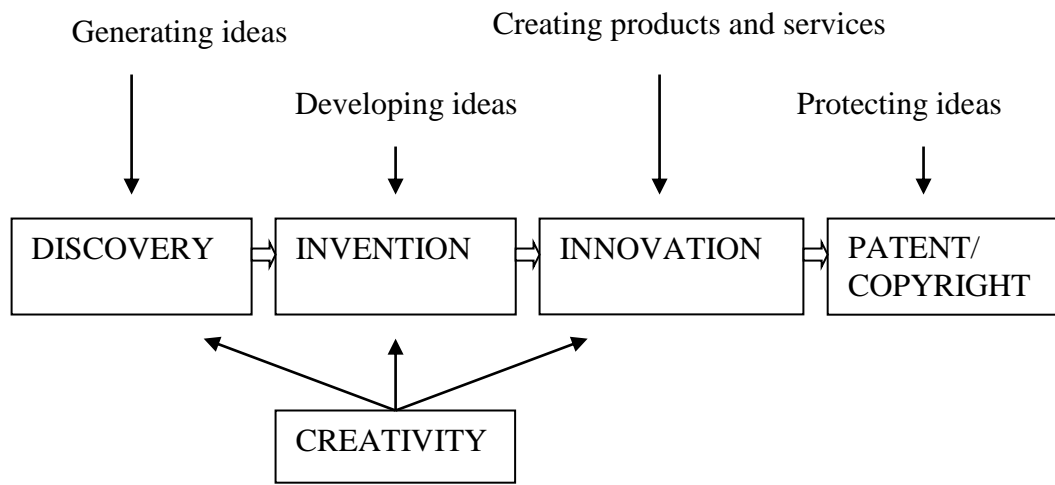
Rwigema *et al.*, (2004:118) state that entrepreneurship is the result of a disciplined process of applying creativity and innovation to satisfy needs in the marketplace. Fredericks, Garstea and Monforte (2008) indicate the importance of tour operators as innovative thinkers in transforming destinations to become sustainable tourism destinations. They conclude that as the awareness of tourism sustainability increase and international regulations become more restrictive, the tour operators competitiveness in terms of these requirements, makes business sense (Fredericks *et al.*, 2008:iv).

The creative problem-solving process forms part of the formal process of developing and innovation. The first step in this latter process starts off with idea generation that can be seen as a process of discovery. The second step leads to the development of most suitable ideas and is known as the invention stage. This step determines the viability of options and their functionality in the market place (Nieman, 2009:61).

The third step is to transform the most suitable ideas into an innovation that is a new product, service or process. Innovation is the practical implementation of the ideas generated in the creative process to achieve specific aims in terms of specific opportunities in the market place.

Figure 4.7 depicts the process of developing an innovation. These innovations are then protected by patent or copyright to reward the creators of new products, services or processes.

Figure 4.7 The process of developing an innovation.



Source: Adapted from Nieman *et al.*, (2009:61)

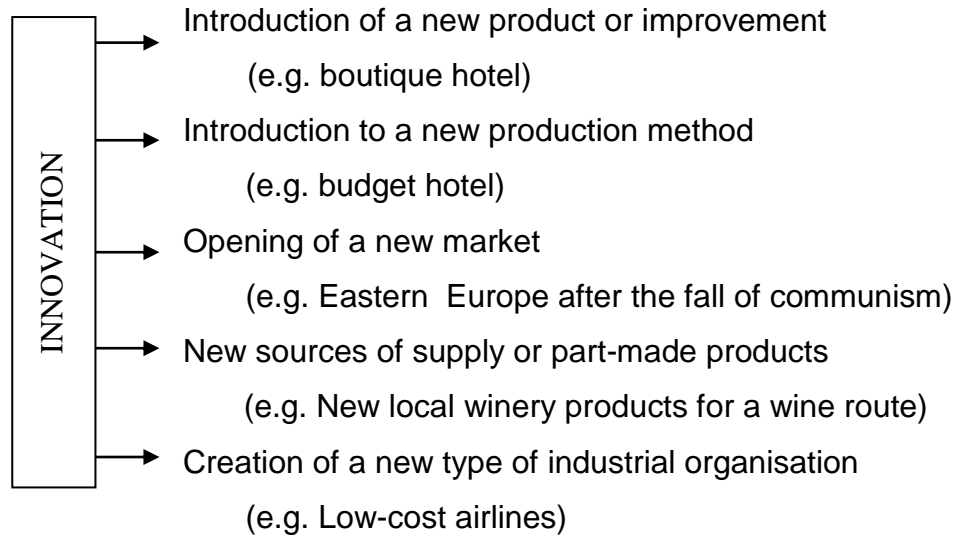
Underlying this process of entrepreneurship is talent and temperament of the entrepreneur as well as the acquired knowledge pertaining to the venture. Skills will enable the entrepreneur to take the idea forward and to mould it into a business opportunity (Nieman *et al.*, (2003:49).

Page (2009:400) is of the opinion that much of the current research on innovation emerged after Schumpeter's study in 1952 that identified five principle routes to innovation that are mainly based on creative thinking and inventiveness. Current research is not clear if management must lead the entrepreneurial process or if it will occur without their influence. What is clear is that management must be aware of the role of innovation and how it can improve business. Figure 4.8 depicts Schumpeter's five principle routes to innovation and how it applies to tourism.

Nathan Myhrvold (former Microsoft chief technology officer) argues that the world needs a capital market for invention like the venture capital market for start-ups and the private equity market for revitalizing inefficient businesses. He concludes that published research is usually rewarded by academic research institutions but not innovation. In order to solve this problem he proposes that a market be created where patents can be

traded or licensed through investment funds and professional management and advice from professional invention capitalists (Myhrvold, 2010:43).

Figure 4.8 Schumpeter's types of innovation applied to tourism.



Source: Page, 2009:401.

4.8 Risk and Entrepreneurship

Risk is the possibility of incurring loss and in the business environment it relates to the possibility of loss associated with its operation, assets and earnings. These losses refer to all the assets including the inventory and equipment but also the employees of the business, the customers and the business's reputation. Zimmerer *et al.*, (2008) is of the opinion that entrepreneurs are not so much risk takers as is commonly believed but rather risk eliminators that plan their businesses in such a way as to eliminate risk and to succeed.

Business risks can be divided into market risk and pure risk. Market risk is the uncertainty associated with an investment and the possibility of it yielding a gain or a loss over time. Pure risk refers to an outcome that only be a loss or no loss. In this case the business runs the risk of losing its assets for example if a fire destroys its

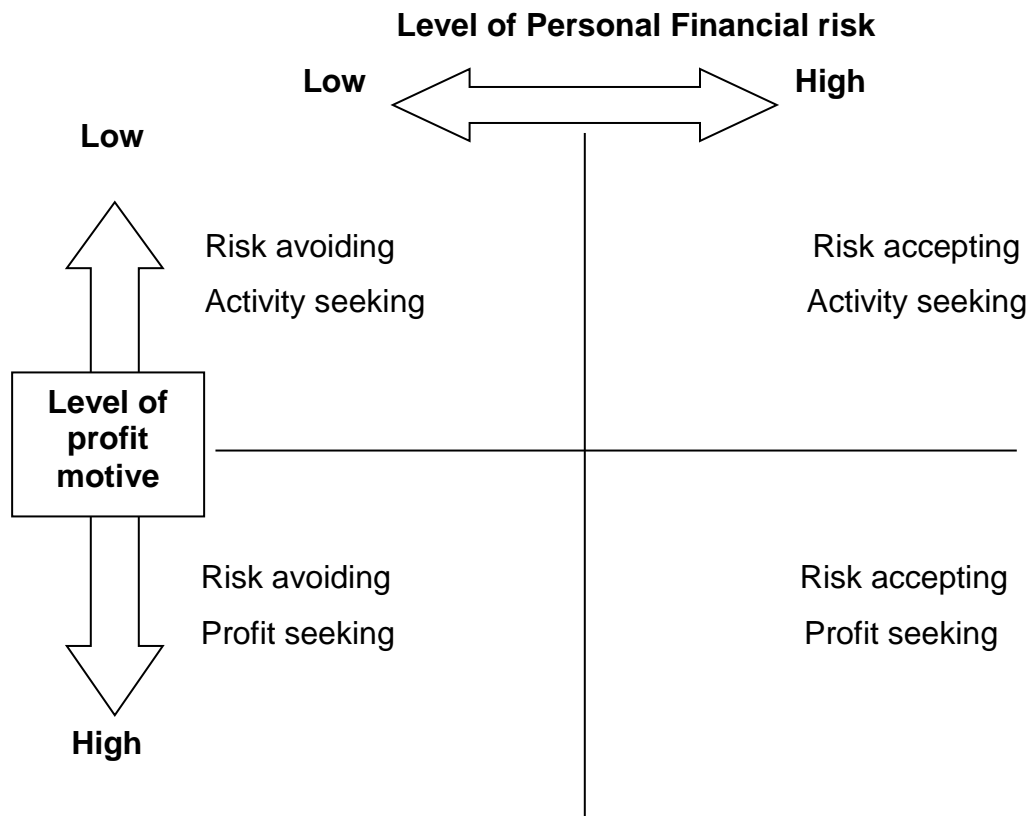
building or stock. The outcomes in this case can only be a loss or no loss and in general this is the only risk that can be insured (Moore *et al.*, 2008:552). Tourism entrepreneurs that have explored new ideas and accepted the associated risks are Thomas Cook (package tours), Vladimir Raitz (the air-package tour) and Stelios Haji-loannou (Easy Jet) and display the crucial behavior of risk-taking, innovation, creativity, alertness and insight (Tribe, 2010:161-162).

4.8.1 Typology of entrepreneurial styles in relation to risk

In an attempt to describe the risk-taking decisions of entrepreneurs, Monroy and Folger (1993:71) developed a typology of entrepreneurial styles. Figure 4.9 illustrates the financial risks associated with undertaking a new venture and indicates how the financial risk is measured against the level of profit motive and the risk associated with such an action. Profit-seeking refers to the objective to maximize profit while activity-seeking refers to other activities associated with entrepreneurs. Not all entrepreneurs are driven by monetary gain and financial risk cannot be explained by the profit motive alone. In general entrepreneurs are willing to accept the risk for what they believe in and in so doing encounter five kinds of risk:

- **Financial risk**
The entrepreneur contributes own funds to the venture and signs surety for loans. The entrepreneur is thus exposed to personal bankruptcy.
- **Career risk**
Entrepreneurs ponder on the thought that if their business fails, would they be able to go back to the workplace as an employee. By taking the step to be an entrepreneur they might lose their job for good.
- **Family and social risk**
The family might feel neglected if the entrepreneur devotes all his time to the business venture and neglect family and friends in the process.

Figure 4.9 Typology of Entrepreneurial Styles



Source: Kuratko (2009:38).

- **Psychic risk**
The entrepreneur might not be able to recover from a bankruptcy in emotional terms and be scared for life.
- **External environment risk**
This risk is associated with the market, consumers and competitors that creates the risk associated with the external environment (Tassiopoulos, 2008: 179).

Manager/owners do not see themselves as high-risk takers but they are aware of the uncertainty associated in the external environment and untested business concepts. Unsuccessful entrepreneurs do not take any risks or take impulsive decisions that they have not thought through. Successful entrepreneurs investigate situations and calculate

the risk involved in making specific decisions and function despite insecurities that may exist (Nieman *et al.*, 2009:15). Roberts et al, contemplates that due to the newness of entrepreneurial ventures, risk and uncertainty becomes prominent factors of these ventures. Due to limited resources the entrepreneur is forced to make decisions on limited information and advice and increases the risk associated with the unknown (Roberts, 2007:417). The risks are significant in entrepreneurial ventures and therefore the potential rewards high. The art of the entrepreneur is to manage risk and not to avoid risk. In order to minimize the uncertainties of these ventures, entrepreneurs and their financiers have developed practices to change the ratio of reward to risk in favour of the entrepreneurial business. Entrepreneurs manage the risks, as well as the potential rewards through conscious and deliberate actions (Roberts, 2007:418).

Tour operators in South Africa have expressed a concern about their vulnerability in terms of international clients and their risk mitigation measures that puts the South African enterprises at risk and increasing the cost of insurance. To this extent the Southern African Tourism Services Association (SATSA) provide a Bonding Scheme for their members and in so doing create reassurance to those that book and pay in advance for services provided by their members. SATSA members also ascribe to a Code of Conduct and agree to operate their businesses to the highest corporate standards and ethics (SATSA, 2011:4).

4.8.2 Risk perceptions and entrepreneurs

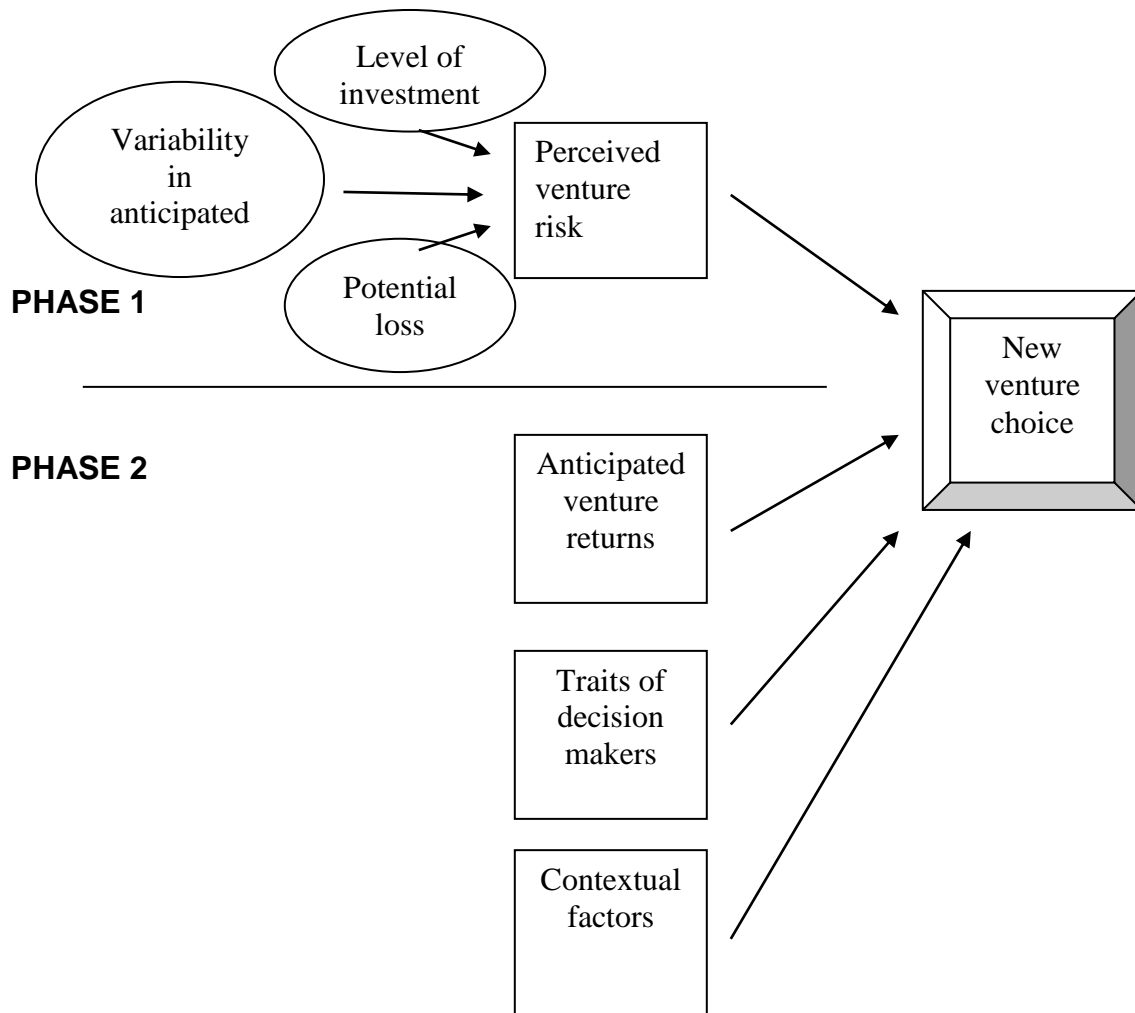
This section refers to a study conducted by March and Shapiro as cited in Kuratko et al., (2004:180). This study investigated the executives' view of risk. Forlani and Mullins argue that risk perceptions of entrepreneurs, venture characteristics, contextual effects, and traits of individual entrepreneurs play key roles in the decisions to enter new ventures. When analyzing the risk perceptions of entrepreneurs Forlani and Mullins found three main factors that influence the entrepreneurs' perception of new venture risks:

- relative level of investment needed to fund the venture
- variability in the expected outcomes of the venture

- potential losses which may occur

Ventures that required bigger investments were perceived of a higher risk nature as it limited the possibility to diversify total investments. Ventures with more uncertain anticipated outcomes as well as those that run the risk of greater operating losses, were perceived as higher risk options. This is depicted by phase 1 in Figure 4.10. Phase 2 (Figure 4.10) depicts new venture choices that are driven by risk perceptions and anticipated returns of alternative ventures, as well as differences in personality traits and a range of contextual factors.

Figure 4.10 A Framework for the role of Risk Perceptions in New Venture Selections.



Source: Adapted from Kuratko et al., (2004:181).

These contextual factors include resource constraints, competencies and interests, environmental factors, etc. This model is based on the notion that entrepreneurs' perceptions of risk and decisions based on risk are distinct and separate cognitive processes.

Risk reflects the degree of uncertainty and the potential loss associated with the outcomes of a specific decision or intervention. Yates and Stone (1992) identified three elements of risk: Potential loss, the significance of the loss, and the uncertainty associated with those losses. In order to understand how decisions are influenced by different elements that constitute the risk factor, the following section attempts to explain, through hypotheses postulation, the different perceptions and decisions made by entrepreneurs.

4.8.2.1 The Variability Perspective and the Entrepreneurs' Risk Perceptions

The economics literature defines risk as variability (Armour and Teece 1978; Fisher and Hall 1969), and that a greater variability in economic returns constitutes greater risks associated with such ventures. Variability, in turn, is defined as the probability of actual returns or outcomes deviating from the expected return or outcome that are based on historical deviations in similar situations.

New ventures, by definition, do not have a history of returns for entrepreneurs to examine, however they can use critical assumption planning, risk analysis and suitability analysis to determine variability in expected future returns. If the venture is not unique in its application then entrepreneurs can draw on relevant experiences in the past.

The variability perspective suggests the following hypothesis:

H1: The greater the variability in predicted outcomes of a proposed new venture, the greater will be its perceived risk

4.8.2.2 The Hazard Perspective and Entrepreneurs' Risk Perceptions

March and Shapira (1987:1407) studied executives' views of risk and concluded that what the executives perceive as risk is not outcome variability, but the hazard that if things go wrong, how much can they lose? They state that a risky choice is one that contains a threat of a very poor outcome (March & Shapira, 1987:1407).

A study by Shapira (1995:45) found that 95% of managers surveyed described risk in terms of the magnitude of financial loss and paid little attention to the probabilities associated with alternative positive outcomes. March and Shapira's view for new ventures leads to the following hypothesis:

H2: The greater the magnitude of a proposed new venture's largest potential loss, the greater will be its perceived risk.

4.8.2.3 The Influence of Variability and Hazard in Risky Choice Decisions

Research (Yated, 1990) found that alternatives with lower levels of perceived risk, whether due to high levels of variability or hazard, should be preferred to alternatives having higher levels of risk, other factors being equal. The findings of Mark and Shapira (1987) concur with this view and suggest the following hypotheses:

H3A: The greater the variability in predicted outcomes of a proposed new venture, the less likely it will be selected for funding.

H3B: The greater the magnitude of a new venture's largest potential loss, the less likely it will be selected for funding.

4.8.2.4 Individual Differences, Risk Perceptions, and Risky Choice Decisions

Sitkin and Pablo (1992:9) found that "risk propensity of the decision maker" dominates risk behaviour instead of the returns that alternative ventures are expected to generate or the inherent risk of ventures. This is in stark contrast to the expected utility

perspective that dominated research at the time. Research by Lopez (1987) supports the views of Sitkin and Pablo and found that some individuals act on the upside potential of alternatives while other individuals act on the potential downside factors of alternative ventures.

Sitkin and Pablo define risk propensity as “the tendency of a decision maker either to take or to avoid risks”. Research by Sitkin and Weingart (1995) has found that differences in risk propensities also influence risk perceptions.

Three additional hypotheses stem from this research:

H4: The greater risk propensity of the entrepreneur, the less will be the perceived risk associated with a particular new venture.

H5: The greater the risk propensity of the entrepreneur, the more likely he or she will be to select new ventures having higher levels of risk.

H6: The lower an entrepreneur’s perceived risk across a set of decision alternatives; the more likely he or she will be to select new ventures having higher levels of risk.

The argument of Sitkin and Pablo (1992) that risk propensities dominate risky choice decisions, supported by Lopez’ (1987) theory that risk propensity consists largely of a tendency of individuals who act to either the upside (i.e. the potential) or the downside (i.e. the hazard) of a situation, suggests that risk propensity should operate on March and Shapira’s (1987) hazard conceptualization of risk, rather than on the variability dimension. Thus, for ventures of equal variability and expected value:

H7: The greater the risk propensity of the entrepreneur, the greater will be the likelihood of choosing a venture having higher levels of hazard.

4.8.2.5 Conclusion of risk research

Evidence indicates that there is support of the impact of both the variability (H1) and hazard (H2) perspective on risk perceptions. In entrepreneurs’ new venture choices were influenced not only by differences in the risks inherent in the patterns of anticipated

outcomes for different ventures, but by differences in our entrepreneurs' perceptions of those risks, as well as their propensities to take risk. With regards to H3A (The greater the variability in predicted outcomes of a proposed new venture, the less likely it will be selected for funding) the vast majority of subjects that participated in the research chose low variable ventures, thus supporting this hypothesis.

In terms of H3B (The greater the magnitude of a new venture's largest potential loss, the less likely it will be selected for funding) forty nine subjects chose high hazard ventures while twenty nine chose low hazard ventures. Contrary to the expectations as expressed in H3B, the entrepreneurs were more likely to choose high hazard ventures than low hazard ventures. Apparently, high hazard ventures are acceptable as long as commensurate gains are sufficiently likely.

In order to assess the effects of the subjects' risk propensities on their risk perceptions of ventures (H4), the study found that entrepreneurs who have greater risk propensities tend to choose riskier ventures although a regression analysis resulted in a non-significant result in terms of the influence of their risk propensities on the perception of venture risks, contrary to the prediction by Sitkin and Pablo. A regression model was used by Forlani and Mullins to test H5 (The greater the risk propensity of the entrepreneur, he more likely he or she will be to select new ventures having higher levels of risk) and yielded a result supportive of Sitkin and Pablo that predicted a positive relationship between risk propensity and new venture choices.

According to this study by Satkin and Pablo H6 (The lower an entrepreneur's perceived risk across a set of decision alternatives, the more likely he or she will be to select new ventures having higher levels of risk) the effect of risk perceptions on new venture choice was also significant. The results did not support H7 (The greater the risk propensity of the entrepreneur, the greater will be the likelihood of choosing a venture having higher levels of hazard) and conclude that risk propensity appears to directly impact venture choice behavior, rather than indirectly effecting behavior through the perceptual process.

4.9 Risk management

Risk management is all the efforts management makes to preserve the assets and earnings of the business. All businesses should plan their operations with a risk management plan in place. It is not a process in which the business tries to obtain insurance for every eventuality but rather in finding the best way possible to reduce the cost of dealing with all the risk it envisage (Moore *et al.*, 2008:557). According to Moore *et al.*, (2008) and Nieman *et al.*, (2003) the process of risk management consists of the following five steps:

- Identify risks
- Evaluate risks
- Select methods to manage risk
- Implement the decision
- Evaluate and review at regular intervals

Entrepreneurs have to manage their risk in such a way as to achieve their goals and objectives in the predetermined time. In order to achieve these goals and objectives they can deploy the following strategies (Nieman *et al.*, 2003:140):

- Retention
In some cases the business retains the risk as it is insignificant to the overall business or the cost of transfer is too high.
- Reduction
If the risk cannot be avoided but the impact reduced, then this strategy comes into play.
- Avoidance
In order to do business one needs to take risks. Some risks are acceptable to the entrepreneur but if the risk is too high, then avoidance of risk is the best strategy.
- Transfer
There are a number of ways to transfer your risk to other parties, e.g. insurance and under-writing.

According to Shaw and Williams (2004:99) tour operators need to balance risk and uncertainty against internalizing the profits that can be made through the integration of products and services and in so doing, securing quality control of the offering. In opting for this strategy, tour operators assume the risk of selling sufficient packages to cover all costs. Bygrave *et al.*, (2008:259) acknowledge that there are various risks associated with different industries and businesses but reduced the most critical to include the broad categories of market interest and growth potential, competitor actions and retaliation, time and cost of development, operating expenses, and availability and timing of finance.

From the tourist's perspective there is also the consideration of personal choice based on risks, as perceived by the individual tourist. Tourists that are adverse to risk will book their travel early, reduce the barriers to travel, and even frequent the same destination due to their perceptions of safety and security. They prefer well-known brands, and will book through travel agents that can provide re-assurance of their choices.

The tourists that are less risk adverse will book last minute, discover new destinations and travel as independent tourists (Page, 2009:110). Tour operators will take this into mind when they compile packages for different target markets and mitigate risks associated with these different target markets through compliance in terms of the different laws as well as insurance and underwriting. These actions need to form part of their risk management plan for their businesses.

4.10 Financing entrepreneurial businesses

A sound business plan must be compiled for any business as it indicates the route that will be taken to achieve the expected future goals and objectives. The business plan must comprise of a financial plan that express the financial needs and returns that are estimated for the business. The business plan, including a sound financial plan, will serve as a basis for obtaining funding for the venture and ensure that management has

financial systems in place that indicate how well the business is doing but also why it is performing in a certain way (Zimmerer *et al.*, 2008:384).

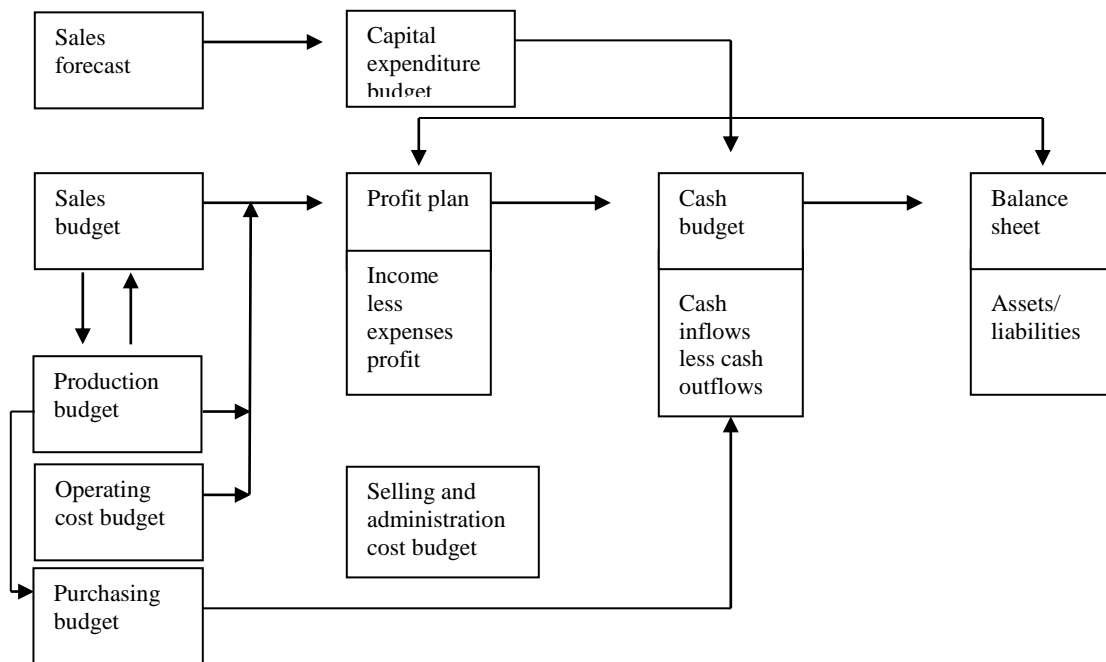
4.10.1 The financial plan

The constructing of the financial plan culminates in a cash budget and a set of pro forma statements that reflect the expected performance of the venture in a specific future time period. In order to determine these expected performances in the future, forecasts are made of:

- projected sales, revenues and expenses over the planning period
- investment requirements in fixed and current assets
- financing needs throughout the planning period

The financial planning process that is followed in order to complete the financial plan is depicted in Figure 4.11.

Figure 4.11 The financial planning process

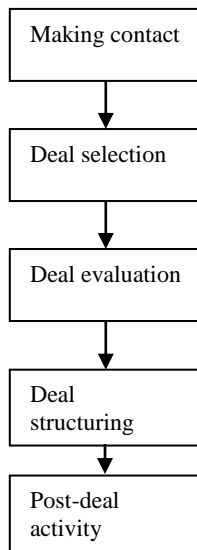


Source: Nieman *et al.*, (2004:148).

4.10.2 Attracting investors

Wickham as cited in Nieman (2004:158) postulates a model that explains the process of attracting investors and identifies five key stages in this model.

Figure 4.12 The process of attracting investors



Source: Adapted from Nieman (2004:158).

Figure 4.12 illustrates this model. The presentation of a comprehensive business plan ensures that potential investors are informed of the nature of the business whilst the financial plan informs on the return on investment, performance measures and exit strategies (Deakins *et al.*, 2009:349). A tour operating business is no different from other small businesses and need finance to purchase office equipment, materials and finances to pay salaries. The business plan lays the foundation for a successful business and this plan will help you judge the feasibility and profitability of the business (mastbusiness, 2011:1)

4.10.3 Sources of finance

Entrepreneurs must be able to create new ventures and operate them in a sustainable and profitable manner. Part of this function is to seek funding and apply financial management. In order to execute the business plan, the business must find suitable

sources of finance. A recent study by Cambridge University as cited in Deakins *et al.*, (2009: 107) concluded that banks were the most important source of funding to SME's with survey results indicating that 79% of small firms surveyed, approached banks for finance, with 87% of these applicants securing some form of finance. In contrast less than 7.2%, of the surveyed firms sourced venture capital with only 59% of these being successful in securing some form of finance in this manner.

4.10.3.1 Short-term financial sources

This source of finance refers in general to finance that is repayable or reviewed within 12 months while in accounting terms it refers to debt repayable within 12 months from the balance sheet date (Nieman *et al.*, 2003:149).

4.10.3.1.1 Trade credit

Nieman *et al.*, (2003:149) and Zimmerer *et al.*, (2008:494) claims that it is common practice in South Africa for businesses to buy their stock on credit from other businesses. This form of credit is known as trade credit and will be awarded to clients based on their credit worthiness. The amount of credit will be determined by the risk for the seller and a long and good payment-record will lower the risk and increase the amount of credit allowed. Many new businesses obtain this kind of financing if no other form of finance is available and if the suppliers want to attract new clients (Kuratko, 2009:198).

The perishability and rate of sales turnover are determining factors in the awarding of trade credit (Nieman *et al.*, 2003:149). The economic nature of a product influences the terms on which credit is awarded. If products are highly perishable or have a fast turnover rate, the seller will not want to take the risk of non-payment and the inability to recover the goods speedily and in a satisfactory condition. In these cases the products will be sold on short credit terms (e.g. 30 days in the fresh meat trade) to minimize the risk. Products that have a slower sales turnover rate and are less perishable, such as

motor vehicles will result in lower risks for recovery and therefore longer credit terms (e.g. 90 days) can be awarded (Nieman *et al.*, 2003:149; Moore *et al.*, 2008:270).

4.10.3.1.2 Bank credit

This form of credit is commonly known as an overdraft facility and entitles the account holder to spend more money than what is available in the cheque account (Bolton *et al.*, 2004:396). The bank will award this form of credit based on your personal credit record and if the credit application is for a business, on the feasibility of the business plan (Rwigema *et al.*, 2008:332). The formulation of the business plan becomes an important instrument to small businesses' that might not have access to other forms of finance. The information that need to be extracted from this business plan need to include information on the following:

- The identity of the applicant
- The managerial abilities of the applicant
- What the overdraft will be used for
- How and when it will be repaid
- Risk protection to the lender in terms of securities
- Financial statements of the applicant and business

Zimmerer *et al.*, (2008:490) cites trade credit and bank overdrafts as the main forms of short-term finance but that small and new businesses find it difficult to provide sufficient security or long term trade records to gain immediate access to these forms of funding. The entrepreneur must be aware that if any of the overdraft conditions are contravened, the overdraft becomes immediately repayable. This form of finance should only be used for short term investments since the recent (2008) credit crunch may reduce the availability of this funding (Rwigema *et al.*, 2008:333).

4.10.3.2 Medium-term financial sources

These sources of finance are of a longer term than the short-term sources and is payable between one and three years (Nieman *et al.*, 2003:151).

4.10.3.2.1 Installment sale transaction

This form of finance includes hire purchase and leasing that are available from commercial banks. The financing of fixed assets, such as equipment, furniture and motor vehicles is often done in this way and suitable for four operating businesses that require fixed assets to start their business. The buyer of these assets takes possession at the time of purchase but the ownership will only be passed onto the purchaser after the final payment is made. When assets are purchased in this manner, an initial deposit determined by the Minister of Finance in terms of the Credit Agreement Act, Act 7 of 1980 (as amended) will be required. This act serves as a government mechanism to protect both the buyer and seller.

4.10.3.2.2 Leasing finance

A lease is a contractual agreement in which the owner of an asset (lessor) grants the use of hired property to another person (lessee) for a period of time. There are three main types: the sale and lease back method, the direct acquisition of an asset under a lease, and leveraged leasing (Van Horne, 1986:534). The asset does not become the property of the lessee during or at the end of the agreed lease but special arrangements can be made such as an upgrade to a new model. The lessee enters into this kind of finance because the main concern is use of a specific asset instead of the ownership of the asset.

4.10.3.2.3 Medium-term loans

Banks offer these loans to clients on a basis that the loans must be repaid between 24 and 36 months. Medium-term loans can be used to finance working capital, to bridge a finance need until other forms of finance can be obtained or for the acquisition of fixed assets. New businesses might struggle to secure this kind of financing because they do not have a proven track record of generating sufficient income or security to the lender (Kaplan *et al.*, 2007:139).

4.10.3.3 Long-term finance

This kind of finance is provided for a period longer than three years and is normally available to established businesses. This form of finance can be considered by entrepreneurs and small business ventures as a new form of finance once they have established the business and a sufficient track record has been established. This form of finance becomes accessible when they have proven high profitability and a good record of repayment on shorter term finance (Zimmerer *et al.*, 2008:492). Long term finance is suitable for when entrepreneurs want to convert existing ventures into new enterprises with existing market research and substantiated return on investments to reduce risk for the lender (Kuratko *et al.*, 2004:479).

4.10.3.3.1 Equity capital

This form of finance refers to capital contributed to the enterprise by the owner and has no obligation to repay the capital or interest. This is also known as sweat equity where ownership can be earned in lieu of wages (Bygrave *et al.*, 2008:64). Different forms of equity capital are generated based on form of enterprise that is in place. Table 4.6 depicts the different business forms and the applicable name of the equity capital.

Table 4.7 Form of business and the applicable equity capital

Form of business	Name of Equity capital	Legal requirements
Sole proprietorship	Capital	None
Partnership	Capital accounts	Written agreements recommended
Close Corporation	Members' contribution	Close Corporations Act 1984 (as amended)
Company <ul style="list-style-type: none">• Public• Private	Share capital	Companies Act, 1973 (as amended)

Source: Nieman *et al.*, (2003:153).

The enterprise can also generate substantial funding through the issuing of public stock. Ownership shares are made available to be traded on the public market and are known as an initial public offering (IPO) with the purpose to generate additional working capital (Moore *et al.*, 2008:320). Raising finance in this manner necessitates specialist knowledge of regulations and is normally done through an investment bank.

Entrepreneurs have to introduce the business to potential investors and can embark on a road show to do presentations in the hope of raising funds. This can be an expensive exercise and there is no guarantee that it will be successful (Moore *et al.*, 2008:320). When finance are raised for a public company in this manner, the entrepreneurs find themselves in a position that they have to answer to the shareholders and might even be in conflict with a chief executive officer that strive to satisfy the demands of the shareholders.

4.10.3.3.2 Debentures

Funds are borrowed from independent sources by issuing a printed document that reflects the repayment of the principal amount as well as the rate and frequency of interest payments to the lender (Tribe, 2005:35). This printed document is known as a debenture. These bonds are not secured by specific property but are protected by restrictions that prevent the assets of the borrower to be impaired in the future. This form of finance is mainly used by public companies that are established by entrepreneurs and a good track record in terms of credit and profitability is essential to be able to issue debentures (Van Horne, 1986:613).

4.10.3.3.3 Retained earnings

This form of finance is known as internal financing and consists of profits that are retained as reserves instead of declaring it as dividends (Moore *et al.*, 2008:270). Nieman (2004:155) estimates that in South Africa the share capital and reserves comprise about 50% of the total company finance.

This is a very attractive form of finance as it is controlled and applied by management in a way that best suits the enterprise. Depreciation comprises a significant component of internal financing and can be utilized in the interim until they are needed for the original purpose. In new ventures and small businesses, this is many times the only finance available to the business and therefore it is important to keep expenses to the minimum and build reserves in the initial stages of the business.

4.10.3.3.4 Long-term loans

This form of finance can only be considered if the business has immovable property that can act as security to the lender. These kinds of loans are also known as mortgage bonds (Conradie & Fourie, 2002:13) and are normally payable over periods of 20 to 30 years.

4.10.3.3.5 Informal finance

This form of finance is often the only source available to start-ups and small businesses and is provided by parents, relatives and friends. Bolton *et al.*, (2004:336) argues that several studies, Bolton (1971), Storey (1982) and Monck (1986) concluded that self-financing was the main source of funding for small businesses. In order to prevent these lenders to interfere with the running of the business, it is advisable to structure a formal agreement that stipulates the rights and returns that apply to the lenders. Galindo, Guzman and Ribeiro (2009:218) state that the service industry is fortunate in that it does not require the higher levels of financial investment as is the case in the construction and manufacturing sectors.

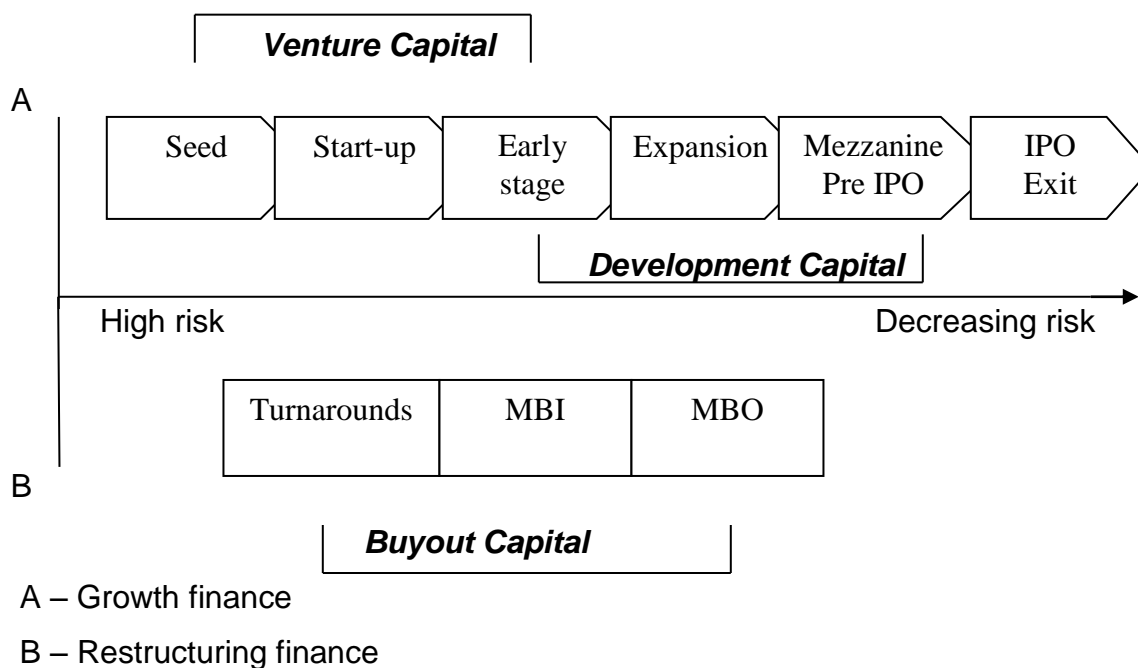
4.10.3.3.6 Venture capital

This form of funding is provided to enterprises during their earliest stage of development and focuses mainly on growth financing. Figure 4.13 depicts the spectrum of venture capital as it is perceived in the South African environment. In order to generate this

form of financing, the enterprise must relinquish some control and shareholding in the business. Entrepreneurs can reduce this demand by using mezzanine finance which is a subordinated debt between long-term and equity finance. In this form of finance the lender receives a preferential claim status in case of liquidation or sequestration. Lenders in this market are seeking long-term appreciation of their investment and are keen to invest in ventures with a strong management team that has a proven track record on taking businesses to a higher profitability level.

Kuratko and Welsch (2004:443) proclaim that over the last few years certain trends in venture capital funding emerged in the United States of America. Firstly, these businesses have raised more money and have gone public at a much earlier stage. Secondly, the predominant investor class is changing from individuals, foundations and families to pension fund institutions (Kuratko, 2009:203). This shift will continue to institutions that are more specialized and experienced than the less experienced venture capital firms.

Figure 4.13 The spectrum of venture capital



Source: Adapted from Nieman *et al.*, (2004:157).

Thirdly, funds are becoming more specialized as the market has become more diverse with stark differences between different market segments and niches. Fourthly, this specialization has necessitated the development of feeder funds that are feeding into established venture capital firms. These feeder funds are keen to support entrepreneurs in the start-up or seed funding stages and can tap into the mainstream venture capital businesses if the need arise in the future.

Fifthly, the small start-up investments are drying up due to the immense need for expertise and venture capital investor involvement during the start-up stage and the consequent preference of investors to focus on expansions and acquisitions instead.

Lastly, the increased competition for funding has resulted in a more sophisticated legal and contractual environment that has resulted in volumes investment agreements. The venture capitalists sought to make large returns on investments and are keen on ventures that can yield these returns in the shortest possible time. Table 4.7 depicts the different stages of the business and the expected return on investment (ROI) for each.

Table 4.8 ROI typically sought by venture capitalists

Business stage	Expected Annual Return on investment	Expected increase on initial investment
Start-up business (idea stage)	60%>	10-15 x investment
First stage financing (new business)	40%-60%	6-12 x investment
Second stage financing (development stage)	30%-50%	4-8 x investment
Third stage financing (expansion stage)	25%-40%	3-6 x investment
Turnaround situation	50%>	8-15 x investment

Source: Kuratko (2009:207).

The evaluation of ventures may take various forms but there are four stages that are cited by Kuratko *et al.*, (2004:446) as the most common:

- Initial screening
- Evaluation of the business plan
- Oral presentation
- Final evaluation

With this evaluation process, about 98% of all venture plans are screened out and the rest will receive some form of financing.

4.10.3.3.7 Informal Risk Capital (Angels)

Wealthy individuals are also keen to invest in ventures and are known as “Angel Investors” or “Informal Risk Capitalists”. William E Wetzel, Jr. defines them as: “...typically entrepreneurs, retired corporate executives, or professionals who have a net worth of more than \$1 million and an income of more than \$100,000 a year. They’re self-starters. And they’re trying to perpetuate the system that made them successful” (Kuratko *et al.*, 2004:448). Angel investors can be classified into five groups:

- Corporate Angels
They are retired or retrenched individuals that have received generous packages and are available to businesses as funders or advisors to the entrepreneurial business (Rwigema *et al.*, 2010:355).
- Entrepreneurial Angels
These investors operate or own their own businesses and because they have these additional sources of income, they will be prepared to take bigger risks associated with entrepreneurial ventures. These investments come with demands of which shares in equity or controls are key demands (Herzlinger & Munoz-Seca, 2011:121-123).

- **Enthusiast Angels**
They like to be involved in deals and seldom seek positions on boards or active participation in the management team. They spread their investments over a few projects and therefore invest smaller amounts per project than the entrepreneurial angels.
- **Micromanagement Angels**
They are very serious investors and the vast majority has created their wealth by their own efforts. They tend to seek a position on the board and are prone to get involved in strategic and tactical management of the business based on their previous experience.
- **Professional Angels**
These investors are professionally qualified people such as doctors, engineers, lawyers, etc. and are prone to invest in products or services related to their profession (Kuratko, 2009: 214).

Informal risk capital is a major source of finance for entrepreneurs and angel capital is estimated at 5 times more than the funds made available for investments through the institutional venture capital market. Table 4.8 depicts the main differences between Angel and Venture Capitalists.

In a study conducted by Kerr, Lerner and Schoar (2010: 1) they found that there is a positive correlation between angel funding and a higher survival rate of enterprises, additional fundraising secured outside the angel type of funding and faster growth (measured in terms of growth in website traffic). The overall findings of this research confirm that due to the bundle of inputs that the angel investors bring to enterprise, they have a large or significant impact on the success and survival rate of start-up ventures.

Table 4.9 Main differences between Business Angels and Venture Capitalists.

Main Differences	Business Angels	Venture Capitalists
Personal	Entrepreneurs	Investors
Firms funded	Small, early stage	Large, mature
Due diligence done	Minimal	Extensive
Location of investment	Of concern	Not important
Contract used	Simple	Comprehensive
Monitoring after investment	Active, hands-on and direct involvement	Strategic and analyzing the gaps
Exiting the firm	Of lesser concern	Highly important
Financial returns	Of lesser concern	Highly important

Source: Adapted from Kuratko et al.,(2004: 448) and Rwigema *et al.*, 2008:356

4.11 Business ethics and social responsibilities

Business ethics can be defined as the principles that guide business people in conducting their business (Van Aardt *et al.*, 2000:259). From these principles a code of ethics can be compiled in order to implement them in the daily operation of the business (Rwigema *et al.*, 2004:136).

4.11.1 General aspects

Van Aardt *et al.*, (2004:260) considers the following characteristics of an entrepreneur as essential elements that will influence the ethical behaviour instigated in the business:

- Honesty
- Reliability
- Fairness
- Loyalty

During the business process continual conflict exists over the ethical nature of decisions and the ethics of the community in which the business operates. These conflict situations arise due to internal and external interests and expectations that differ between stakeholder groups (Rwigema *et al.*, 2008:381). The continual changes in society such as the role of woman, dress codes, etc. can render a once suitable code of ethics redundant. The establishment of these codes must be seen as an evolving process and managed accordingly. Figure 4.14 depicts a conceptual framework for studying this process. Nieman *et al.*, (2004:141) states that small and growing businesses are especially vulnerable to extortion and bribery and can be under immense pressure to compromise on ethics, due to their limited resources. This compromise could include:

- Skimming
To reduce the declared income of the business in order to pay less taxes

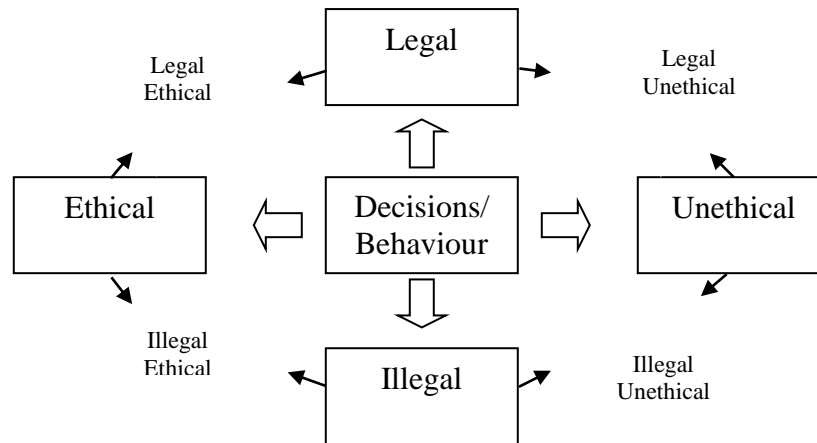
- Deception
By creating expectations about your product or service that is not true

- Disinformation
By declaring figures and future plans that are not accurate in a deliberate attempt to mislead investors or officials.

The legal framework in which businesses operate, provide the legal boundaries in which to operate but they leave room for unethical practices that can be exploited by unscrupulous managers (Tribe, 2005:15). These practices are sometimes justified by the following:

- The activity is not “really” illegal
- This behavior is in the best interest of the business or client
- This conduct can never be discovered
- It helps the enterprise and will therefore be condoned by the owners

Figure 4.14 Classifying decisions in terms of ethics and the law

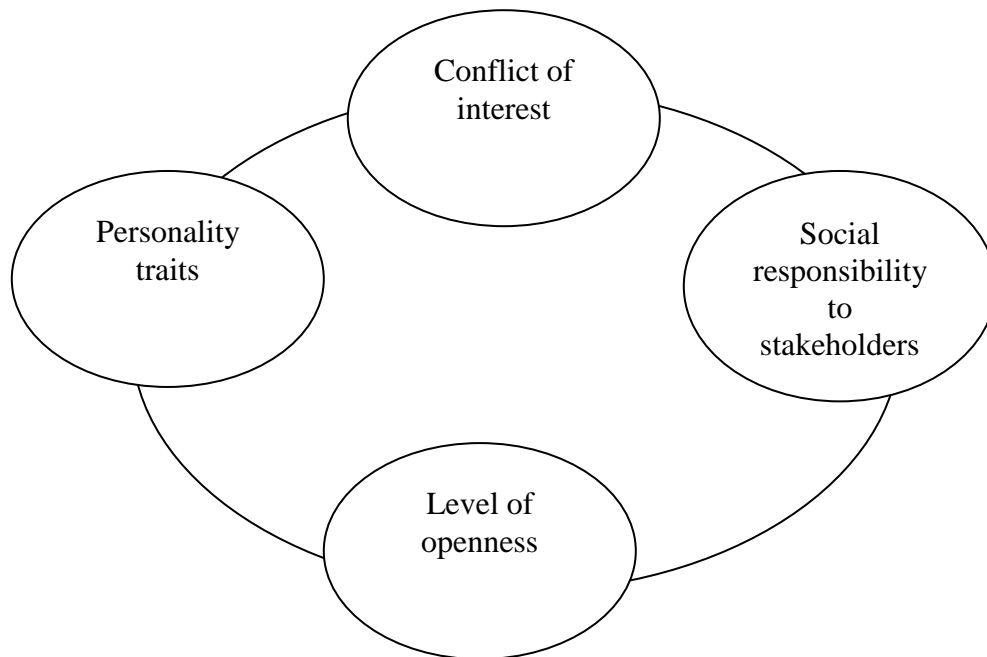


Source: Adapted from Rwigema *et al.*, (2008:375).

Management can be classified as immoral management, amoral management or moral management. Immoral management are actions that are discordant with accepted ethical standards in the specific environment. Amoral management refers to behaviour that only takes the ambit of the law into consideration and operates within these boundaries, not taking moral values into consideration (Smit, s.a:57). Moral management can be described as management that adhere to accepted moral standards and use the ambit of the law as the minimum ethical guidelines.

Entrepreneurs face ethical decisions that can be grouped in four different categories. These categories consist of a conflict of interest, personality traits, responsibilities to stakeholders and levels of transparency. Figure 4.15 depicts these four themes that entrepreneurs face. Conflict of interest refers to the constant tension between the interests of the business and the individual (Rwigema & Venter, 2004:137). Personality traits relate to the interpretation and decision making process made by individuals. The differences between individuals make it difficult to ensure consistent behaviour. Social responsibilities to stakeholders include the mutual beneficial relationship between the business (internal environment) and the external environment.

Figure 4.15 Ethical Decisions for Entrepreneurs



Source: Kuratko *et al.*, (2004:173) and Kuratko (2009:96).

A code of conduct could be a useful instrument to ensure this responsibility. Lastly, the level of transparency will enable the public to know the ethical principles that a business endorses and what expectations they can conclude of the business. Entrepreneurs can take on a social obligation by responding to the laws that prevail or respond actively to the needs of the community by accepting social responsibility. The most active form of social involvement is called social responsiveness where the business is highly proactive and is open to public scrutiny.

4.11.2 Global code of ethics for tourism

The World Tourism Organization (www.world-tourism.org/code-ethics) created a code of ethics for tourism (Annexure 1) through a consultative process and building on previous deliberations and governing instruments. Tourism entrepreneurs need to take cognisance of these instruments as tourism is an internationally monitored sector that can influence the demand for your products or services. These instruments included the following:

- Universal Declaration of Human Rights of December 1948
- International Covenant on Economic, Social and Cultural Rights of 16 December 1966
- International Covenant on Civil and Political Rights of 16 December 1966
- Warsaw Convention on Air Transport of 12 October 1929;
- Chicago Convention on International Civil Aviation of 7 December 1944, and the Tokyo, The Hague and Montreal Conventions in relation thereto;
- Convention on Customs Facilities for Tourism of 4 July 1954 and related Protocol;
- Convention concerning the Protection of the World Cultural and Natural Heritage of 23 November 1972;
- Manila Declaration on World Tourism of 10 October 1980;
- Resolution of the Sixth General Assembly of WTO (Sofia) adopting the Tourism Bill of Rights and Tourist Code of 26 September 1985;
- Convention on the Rights of the Child of 26 January 1990;
- Resolution of the Ninth General Assembly of WTO (Buenos Aires) concerning in particular travel facilitation and the safety and security of tourists of 4 October 1991;
- Rio Declaration on the Environment and Development of 13 June 1992;
- General Agreement on Trade in Services of 15 April 1994;
- Convention on Biodiversity of 6 January 1995;
- Resolution of the Eleventh General Assembly of WTO (Cairo) on the prevention of organized sex tourism of 22 October 1995;
- Stockholm Declaration of 28 August 1996 against the Commercial Sexual Exploitation of Children;
- Manila Declaration on the Social Impact of Tourism of 22 May 1997;
- Conventions and recommendations adopted by the International Labour Organisation in the area of collective conventions, prohibition of forced labour and child labour, defence of the rights of indigenous peoples, and equal treatment and non-discrimination in the work place.

4.12 The South African regulatory environment

The South African environment has several restrictive and guiding policies in place that govern the operations of business. These regulatory instruments govern the operations of all businesses and affect the various enterprises to different degrees. These regulations are captured in a policy framework that governs entrepreneurs in South Africa (Rwigema *et al.*, 2004:313).

4.12.1 The regulatory framework in South Africa

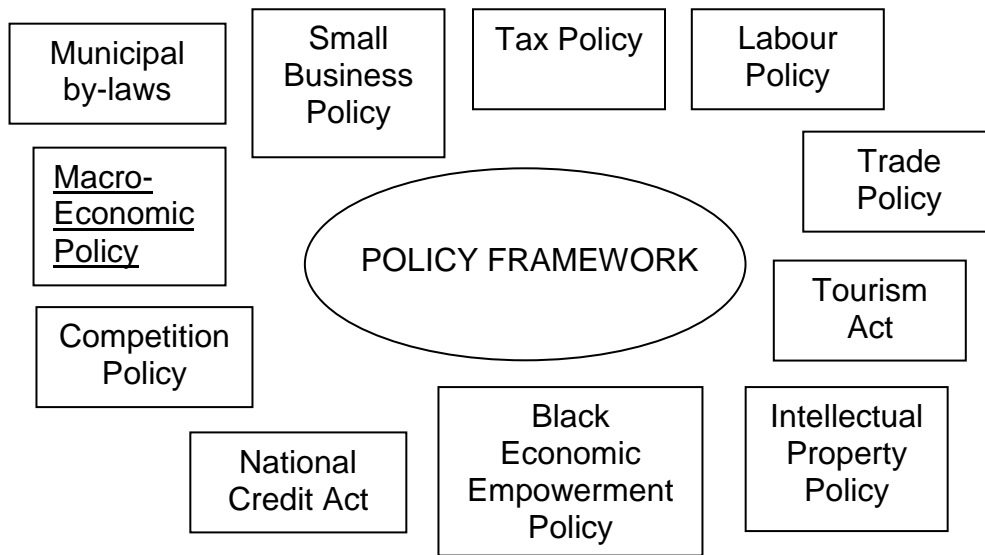
This framework (Figure 4.16) consist of the Macro Economic Policy (GEAR and AsgiSA), Municipal by-laws, SMME Policy, Taxation Policy, Labour Policy, Competition Policy, Trade Policy, Tourism Act, Intellectual Property Policy, Black Economic Empowerment Policy and National Credit Act (Rwigema *et al.*, 2008:227).

4.12.1.1 GEAR and AsgiSA

This is the macroeconomic policy of South Africa and replaced the Reconstruction and Development Programme (RDP) in 1996. The objective of this new policy was to make South Africa more competitive in the international arena by deregulating and exposing markets. This policy aims to achieve the above by means of:

- Accelerating the fiscal reform process
- Stabilising the exchange rate and reducing inflation
- To enhance trade and industry by implementing policy reforms
- To privatize public sector assets that are not of strategic value
- An expansion of public infrastructure development
- Structured flexibility in the collective bargaining system
- A social agreement to facilitate price and wage moderation that will encourage investments, job creation and service delivery.

Figure 4.16 The policy framework for Entrepreneurs in South Africa.



Source: Adapted from Rwigema *et al.*, (2008:227).

These policy aims can be seen by the entrepreneur as an opportunity to develop business opportunities or to expand existing businesses. In achieving these aims, government creates an external environment that is conducive to the entrepreneurial business. During the period 1996 to 2004 the GEAR policy achieved moderate successes with an average growth rate of approximately three percent. The government realized that this growth rate was too slow to achieve the employment targets of 2014 and introduced the Accelerated and Shared Growth Initiative of South Africa (AsgiSA). This initiative did not replace any policy but rather assisted in achieving policy objectives more efficiently (www.info.gov.za/asgisa/asgisa.htm).

4.12.1.2 SMME Policy

The development of SMME's in South Africa was boosted in 1995 when a policy was formulated in the form of the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa. This policy was transformed to the National Small Business Act 102 of 1996.

This Act defines an SMME as a separate and distinct business entity managed by one owner or more. In the schedule of the Act the SMME's are classified by sector or subsector in terms of full-time staff, annual turnover and gross asset value. In terms of this Act, the National Small Business Council was established to represent and promote the interests of small business as well as to act in an advisory capacity to influence social and economic policy that affects the development of SMME's. This Act also made provision for the establishment of Ntsika that provides non-financial development and support services. The key small business functions of Ntsika include the following:

- To facilitate the provision of business advice and counseling to small business
- To facilitate access to raw materials and other products
- To facilitate national and international market access to products and services
- To facilitate and strengthen the capacity of service providers in order to improve small business competitiveness
- To formulate and coordinate a national programme of research and information dissemination
- To report to the Director-General of Trade and Industry the effects of legislation on small business
- To analyse the implementation of the National Small Business Support Strategy
- Make recommendations to authorities on the effects of policies on small business, and
- To promote and improve the public's understanding of the role that small business plays in the economy of the country.

The Department of Trade and Industry (DTI) has also initiated several actions to develop and promote small business. In 1996 Khula Enterprise Finance Limited was established as an agent of DTI to act as wholesale financier that could access credit for SMME's (www.khula.org.za) [Accessed: 24 July 2010] .

DTI also embarked on several incentive schemes to assist SMME's. These schemes included the following:

- Standard leased factory building scheme
- Small/medium manufacturing development programme
- Economic empowerment scheme
- Venture capital scheme
- Normal finance scheme
- Import finance scheme
- Short-term export finance guarantee
- Export marketing and investment assistance scheme, and
- Ntsika's trade and investment development programme.

4.12.1.3 Taxation policy

The tax policy of South Africa is a crucial policy for business to adhere to and government has embarked on a drive to simplify the implementation of this policy in the small business field. South Africa also moved from a source based to a residence based tax system. This means that taxes are paid in the country of residence irrespective of where the income has been generated.

Income tax is calculated on net profit and the general equation used for this is:

Gross sales – cost of goods sold = gross profit

Gross profit – business expenses = net profit (or loss)

Expenses incurred for operating the business can be deducted and include the following:

- Materials bought for manufacturing or resale
- Wages and salaries
- Advertising and promotion
- Administrative costs
- Interest on loans and overdrafts
- Repairs and maintenance
- Vehicle running costs, and
- Bad debts

Capital gains tax was introduced to tax any proceeds from the sale of an asset where these proceeds exceeds the base cost of the asset. Companies and Close Corporations pay 50% tax of the net capital gain while sole proprietors and partners pay 25% of the capital gain.

Value Added Tax, in terms of the Value Added Tax Act 89 of 1991 is levied on the sale of goods and services delivered by vendors as well as on imported goods sourced by anybody including non-vendors.

4.12.1.4 Labour policy

South Africa has a comprehensive labour regulatory environment that operates in the wider legal context of international and local conventions. This framework consists of the Labour relations Act 66 of 1995 that gives effect to labour rights entrenched in the constitution. These include the right to strike, freedom of association as well as obligations imposed by the International Labour Organisation (ILO). Another component of this framework is the Basic Conditions of Employment Act 75 of 1997 and regulates the hours of work, leave entitlement, basic working conditions, etc.

The Occupational Health and Safety Act 85 of 1993 was established to ensure health and safety for persons in the working environment as well as for those operating plant and machinery. This act also makes provision to protect people who are not employees of the enterprise but can be affected by the operations of the enterprise. In order to compensate people who have been affected negatively by enterprises, the Compensation for Occupational Injuries and Diseases Act 130 of 1993 was instituted. This Act applies to all employees but excludes workers that are disabled for less than three days, domestic workers, individuals doing military training, the South African National Defence Force, the South African Police Services, workers guilty of willful misconduct, workers that are employed primarily outside of South Africa but deployed in the country due to a temporary assignment, and those employed outside South Africa for more than 12 consecutive months.

The Unemployment Insurance Act 63 of 2001 aims to protect workers that get retrenched or unemployed by providing a fund against which they can draw to soften the blow of unemployment. A contributor to this fund is entitled to one day's benefit for every six days worked (whilst contributing to the fund) with a maximum accrual of 238 days. Together with the above Act, the Unemployment Insurance Contributions Act 4 of 2002 creates a pool of funds to achieve the aforementioned objectives. This Act makes it mandatory for all employers and employees to contribute to this fund.

Part of the transformation agenda of the government, is to improve the skills base in South Africa and to equip the labour market with the necessary skills to reduce unemployment. Rwigema *et al.*, (2008:284) states that to achieve this objective the Skills Development Act 97 of 1998 created a framework to:

- Improve productivity
- Improve the quality of life of workers and their labour mobility
- Promote self-employment, and
- Improve social services

This Act encourages employers to invest in training of their staff and to encourage employees to improve their skills by participating in training interventions and learnerships. In order to fund these interventions the Skills Development Levies Act 9 of 1999 was instituted and compels employees to pay a skills development levy of 1,5% of their wage bill.

4.12.1.5 Competition policy

The need for a competition policy was identified by the new ANC government in 1997 in order to regulate the private sector and to reduce the domination of the economy by the white minority. After broad consultation the Competition's Act 89 of 1998 was promulgated and became effective from 1 September 1999. Enterprise development is an important objective of this act and issues such as equity, small business development and employment growth are promoted. The main purpose of this Act is to promote and maintain competition in order to achieve the following:

- To promote the efficiency and development of the economy.
- To ensure that consumers have choices in terms of products and prices
- To promote employment
- To advance social and economic welfare of South Africans
- To increase opportunities of participation in international markets
- To provide equitable opportunities for smme's in the economy
- To promote broader ownership with specific focus on Previously disadvantaged Individuals (Hartzengerg, 2008:10)

In order to achieve the objectives of the Act, the following is enforced:

- Prohibition on restrictive horizontal practices
- Prohibition on restrictive vertical practices
- Prohibition on the abuse of a dominant position
- Regulation of mergers, and
- The establishment of the Competition Tribunal.

4.12.1.6 Trade Policy

South Africa is a signatory to the General Agreement on Tariffs and Trade (GATT) as well as the General Agreement on Trade in Services (GATS) and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The objective is to develop trade agreements that will encourage trade and increase benefits to trading parties.

In 2000 South Africa entered into a Free Trade Agreement with the EU that encouraged liberalization of tariffs and imports. In 1996 South Africa entered into the Southern African Development Community (SADC) Trade Protocol that included duty free exports to South Africa with 69% of SADC imports being zero rated. South Africa also established a customs union in 1910 amongst regions and neighbouring countries. This agreement was reformed in 2002 by member states of the South African Customs Union and included Botswana, Lesotho, Namibia, South Africa and Swaziland (Rwigema *et al.*, 2008:301).

4.12.1.7 Intellectual Property Policy

South Africa is a member of the World Intellectual Property Organisation and a signatory to the World Trade Organisation's Trade-Related Aspects of Intellectual Property Rights (TRIPS). This agreement consists of three main elements:

- Minimum standards of protection
- Enforcement of intellectual property rights, and
- Dispute settlement procedures.

By participating in the above, South Africa provides protection in terms of the broad categories of industrial property and copyrights (www.svw.co.za/et-intellectual-property-policy.html). In terms of the industrial intellectual property rights, the following categories are identified:

- Patents: this provides an exclusive right to an invention which is a product or process that provides a new way of doing something or offers a new technical solution.
- Trademarks: this is a distinctive sign which identifies goods and services and is owned by a specific entity. The trademark represents a value proposition for the user of consumer that purchase the product or service to satisfy a specific need.
- Industrial design: this refers to the ornamental or aesthetic aspects of an article that could be three (shapes) or two dimensional (lines and colours) by nature.
- Geographical indications: this refers to signs that indicate a products origin as well as associated values or qualities attached to the destination.

The copyright to an artistic or literary work gives the creators protection in terms of ownership of the specific work.

4.12.1.8 BEE Policy

The Black Economic Empowerment Act of 2003 regulates the efforts to empower the previously disadvantaged communities and to ensure effective participation of black people in the economy of South Africa. In order to monitor the progress of BEE implementation, government developed a score card that consists of seven elements

that include ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development.

This policy, with specific reference to Tourism, was discussed in Chapter Three (BEE in Tourism).

4.12.1.9 National Credit Act

The National Credit Act 34 of 2005 became fully operational in 2007 and was designed to promote a fair and non-discriminatory marketplace in South Africa. The main purposes of the National Credit Act are the following (www.nedbank.co.za) [Accessed: 22 August 2011]:

- To promote a fair, competitive and equitable credit market that is sustainable
- To educate consumers in order to make informed decisions and act responsibly
- To enforce affordability assessments and to prevent over-indebtedness
- To protect consumers that have been exploited by giving them access to a National Credit Regulator and the National consumer Tribunal
- To provide debt counseling process that would assist consumers in finding solutions to their inability to settle their debts in conjunction with their credit providers, and
- To promote equity in the credit market by balancing the rights of all parties.

Entrepreneurs are affected by this Act when they are applying for loans or credit from banks or suppliers. They themselves are also affected by this Act if they extend credit to other entities. The National Credit Act 34 of 2005 ensures that entrepreneurs are informed before they make a decision to buy on credit as well as protected in terms of consumer rights (Rwigema *et al.*, 2008:319).

4.12.1.10 Municipal By-laws

In terms of the Constitution, Act 108 of 1996, municipalities must lead, manage and plan for development. In terms of this mandate, the entrepreneur will be faced with various

municipal by-laws and regulations that impact on their business operations. These by-laws can include permits and licenses, business zoning rights, building regulations, health and safety regulations. The tourism function is described as a concurrent function between different spheres of government and empowers municipalities to promote tourism. In an attempt to reduce red tape the following principles are being proposed to instill smart regulations:

- Proportionality
- Accountability
- Consistency
- Transparency
- Targeting

4.12.1.11 Draft Tourism Bill

The National minister for tourism, Minister Marthinus van Schalkwyk has published a draft Tourism Bill on 5 August 2011 for public comment. The aim of this Bill is to provide for the development and promotion of sustainable tourism, to provide for the continued existence of the South African Tourism Board and to repeal the Tourism Act 72 of 1993.

Once this Bill is accepted and promulgated as a Tourism Act, the following objectives will be pursued by its implementation:

- Promote responsible tourism for the enjoyment of all citizens and foreign visitors
- Provide for effective domestic and international marketing of South Africa as a tourist destination
- Promote quality tourism products and services
- Promote growth, development and transformation, and
- Enhance cooperation and coordination between all spheres of government in developing and managing tourism.

The public will have 60 days from date of publication to comment on the Bill.

Components of this Bill will be discussed in Chapter Four, "BEE in Tourism" and address the issues of transformation.

4.13 Conclusion

The literature overview in section 4.3.1 shows that entrepreneurs are innovative in their behaviour and apply resources in new and creative ways. A study by Wickham (2001) found that small business and entrepreneurial ventures start in the same manner but the entrepreneurial ventures enter into a fast growth stage that forms part of the business goals at the outset. Both kinds of enterprises need business management skills at the outset.

According to Poon (1993) the shift from old to new tourism demand, necessitate the creation of new and novel tourism experiences. This new tourism consists of informed, experienced and sustainable orientated travelers that demand new tourism products and experiences such as community and environmentally friendly excursions.

Traditionally entrepreneurs were seen as people who “undertake” business ventures. This point of view changed with the coming of the Industrial Revolution when large scale production created the need for “organizers” that could arrange production factors to deliver the desired production. This created the modern entrepreneur that was no longer a craftsman but rather a business organizer. Today, business managers that are not doing business in a new or novel way, with rapid expansion motives, are wrongly referred to as entrepreneurs (Rwigema *et al.*, 2004:7). It is Baumol that insists that entrepreneurship is the fourth factor of production and should be recognized as such in economic theory.

Myths about entrepreneurs are being addressed through wide-scale reporting on successes in the media and the “Robber Barons” of the past are now seen as creators of wealth and employment. The most cited characteristics of entrepreneurs include commitment, determination, perseverance, calculated risk taking and vision. The 2008 Global Entrepreneurship Monitor (GEM) in South Africa cited the three most consistent characteristics of entrepreneurs as tolerance of ambiguity, a locus of control that is more internal than external and lastly the willingness to take calculated risks.

Entrepreneurs are motivated by personal characteristics, their personal environment, personal goals and the business environment. They can generate ideas but are successful in turning their own and those of others into successful business ventures. Entrepreneurs are innovative through inventions, extensions, duplication and synthesis. The 2009 GEM (South Africa) report that differentiation between competitors is low, innovation is low and the use of new technologies are limited.

Entrepreneurs are distinguished from business managers by their higher propensity to accept risk. It is not just the inherent risk associated with a venture but also the differences in entrepreneurs' perceptions of the risk of a venture as well as their propensities to take risk. They are prone to choose high hazard ventures as long as the commensurate gains are sufficiently likely to occur.

Entrepreneurs prefer ventures with low variability that will minimize the probabilities of unexpected negative outcomes. Entrepreneurs with higher risk propensities choose riskier ventures but it does not influence their perceptions of risk attached to different ventures. They manage their risks by identifying risk, evaluating risk, select methods to manage risk, implement the decision and constantly evaluate and review at regular intervals.

Finance is obtained in the form of short, medium and long term finance that is suitable for the specific business. Venture capital is provided for businesses in their early stages of development but will have to relinquish some control or shareholding in the business. The development stage of the business will influence the ROI expected by investors as new or developing businesses are associated with higher risks due to the lack of a suitable track record. During the idea or start-up stage a return on investment of 60% or more can be expected while during the expansion stage a return of 25% to 40% can be expected. Angel investors can be an important source of finance and knowledge as they are self-starters that try to perpetuate the system that made them successful, in new ventures.

Entrepreneurs have a social responsibility as well as ethical codes to abide by. The law creates the legal environment in which they have to operate while communities determine the social and ethical environments in which they operate. A global code of ethics was adopted by the United Nations World Tourism Organisation (UNWTO) in order to guide global ethical behavior in tourism. Entrepreneurs in South Africa operate in a regulatory environment that is captured in a policy framework consisting of various policies. Chapter Seven will be devoted to the formulation of a model to ensure economic growth and by doing so create the opportunities to expand Black Economic Empowerment (Chapter Seven: A Growth Model to expand Black Economic Empowerment).

CHAPTER FIVE

METHODOLOGY

5.3 Introduction

The purpose of the study was to determine how business growth can be encouraged in the tour-operating sub-sector of South Africa and address Black Economic Empowerment at the same time. The key components of this study consist of the tourism system, black economic empowerment, entrepreneurship and tourism incentives. The immediate challenge was to generate sufficient primary research that would contribute to a solution that could encourage the growth of existing tour operating enterprises as well as stimulate the establishment of entrepreneurial ventures amongst tour operators, whilst improving black economic empowerment in this sub-sector.

5.4 Research design

The main objectives of the research design are to ensure that the study is relevant to the problem and that economical procedures are utilized. The following types of research were considered:

- **Exploratory Research**
This research method focuses on the discovery of ideas and insights and is often seen as searching for answers to the why and how questions.

- **Descriptive Research**
This research method is characterized by the determining of frequency with which things occur or the relationship between two variables. It is often seen as concerned with solving the what, when, where and who questions.

- **Causal Research**
This research method is concerned with determining the cause-and-effect relationships that might exist and experiments are best suited to determine this relationship.

To conduct this study, the descriptive research design was selected for the following reasons:

- It is ideally suited to describe the characteristics of certain groups and would enable the researcher to build a profile of the “average” tour operator in South Africa.
- It enables the researcher to estimate the proportion of tour operators who behave in a certain way.
- It enables the researcher to make predictions of tour operator behaviour in the future.

Churchill (1996:138) states that the true value of descriptive research lies in the ability to make facts practical and valuable by explaining the framework of theory and conjecture. Only when the facts are fleshed to a skeletal theory do they become useful in finding solutions for specific problems.

The researcher could choose between a longitudinal or cross sectional descriptive type of study. The longitudinal type consists of true or omnibus panels that would generate the desired information. Alternatively the cross sectional type relies on a sample survey to generate the desired information. Cross Sectional analysis have the benefits of providing a snapshot of the variables of interest at a specific time and the sample is selected to be representative of a known universe. The sample survey was selected for this study because it had the ability to cover a broad geographical area and reach tour operators in South Africa in a cost effective way.

5.5 Data Collection Methods

Primary data and secondary data are two types of data that can be collected.

Secondary data refers to data that have been generated in previous studies and lends itself to be used in other arguments. A NEXUS search was embarked on to determine if similar tour operator studies were conducted in the South African context. The NEXUS

search and other internet and database searches revealed that only three South African tourism studies focused on the tour operating sector in South Africa and referred to the perceptions of tour operators on key issues impacting on tourism development in Durban; marketing communication methods used by tour operators in Gauteng and the marketing information system as a management tool for South African tour operators.

A further search for secondary data was conducted on ScienceDirect to find appropriate international articles relating to tour operating. A total of 26 articles that referred to tourism entrepreneurship, small business and tour operating were cited. Only one of these: The perception of small and medium sized tourism accommodation providers on the impacts of the tour operators' power in Eastern Mediterranean (Buhalis and Butler) referred to tour operators. Secondary research revealed sufficient information on Black Economic Empowerment, Entrepreneurship, Training programmes and Development Models. From this search for secondary data it became clear that primary data had to be generated to answer the research questions in terms of the specific target population, namely tour operators in South Africa and their efforts to advance BEE.

Primary data is collected with specific research objectives in mind and is known as new and original data (Clark, Riley, Wilkie & Wood (1998:8). Primary data can consist of the following types of information:

- Demographic/ Socioeconomic Characteristics
- Psychological/ Lifestyle Characteristics
- Attitudes/ Opinions
- Awareness/ Knowledge
- Intentions
- Motivation
- Behaviour

These types of information were considered in compiling the questionnaire and can be seen in the attached questionnaire, annexure A. Obtaining this information could have been done by means of communication or observation. Communication refers to the

questioning of respondents by using a data collection instrument known as the questionnaire. This process can be conducted in an oral or written format. Observation does not involve questionnaires and relies on observing the subject of interest and recording the relevant facts, actions and behaviours. For this study the communication method was chosen as it was more practical and cost effective to reach tour operators throughout South Africa by means of a questionnaire.

In compiling the questionnaire the researcher could make use of a structured-undisguised questionnaire that rely on fixed questions and fixed answers. This ensures that the respondents receive the same questions and have the same choice of predetermined answer options. Another option would be the unstructured-undisguised questionnaire that relies on fixed but open-ended questions that can generate any answers. Due to the complexity of the issues related to tour operating in South Africa, a combination of these two kinds of questionnaires was utilized.

Probability (random) sampling was selected for this research as it is according to Healey (1999:140) the only type of sampling that fully supports the use of inferential statistical techniques to generalize to a population. In order to ensure that a sample is representative of a population the EPSEM (Equal Probability of Selection Method) principle should be applied. This principle means that every element of the population must have an equal probability of being selected for the sample. Due to the fact that the largest database of tour operators only consisted of 367 members, the researcher created equal probability for all the elements to be selected by distributing the questionnaire to all of them.

The methods that can be used to administer the questionnaire include personal interviews, telephone interviews, surface mail and e-mail questionnaires. In order to reach the broadest possible scope of tour operators in South Africa the questionnaires were emailed to all tour operators that are listed on National and Provincial tourism databases. A follow-up campaign was followed after the initial mailshot and consisted of a reminder email as well as telephonic reminders to complete and submit the

questionnaires before the closing date. The follow-up campaign resulted in the response rate increasing from an initial 4% to 20% by the closing date for submissions.

5.6 Data Collection Forms

The questionnaire was designed to consist of five broad sections based on Business Profile, Product Characteristics, Government Incentives, Black Economic Empowerment and Skills Development. The electronic versions of the questionnaire were made available in Windows 97-2003 and Windows 2010 versions to ensure broad application and ease of completion. Respondents were also given the option to use the postal or fax options to ensure anonymity if they so wished.

5.6.1 Entrepreneurship research component

The understanding of the term “entrepreneur” varies greatly in literature and it was decided to determine the understanding of this term amongst tour operators in South Africa by asking them how they perceived their business to be unique and entrepreneurial in comparison to their competitors. A term commonly used in South Africa is that of the “emerging entrepreneur”. According to Nieman et al., (2003: 36) this term is used in South Africa to refer to people who were disadvantaged prior to the first democratic elections in 1994 and who have been receiving preferential assistance from government in an attempt to empower them to become entrepreneurs. These entrepreneurs are black people as defined by the Tourism BEE Charter and Scorecard of 8 May 2005. The Charter defines black people as Africans, Coloureds and Indians who are South African citizens. These people are also referred to as Previously Disadvantaged Individuals (PDI’s) under the Apartheid government and the term PDI is used in the questionnaire, to refer to black people as defined above.

The pilot survey that was conducted amongst tour operators in 2004/5 included a section dealing with the definition of entrepreneurship and the profiling of an entrepreneur. These findings were complimented by a tourism entrepreneurship study that was conducted by the researcher amongst tourism officials and entrepreneurs from

different developing countries. Another pilot survey on entrepreneurship in tourism was conducted amongst tourism professionals that attended the Tourism Destination Management course in Bruges (Belgium) during 2003 and 2004. This survey generated an input into the understanding of entrepreneurship amongst tourism professional from a developing country perspective. The outcomes of these surveys indicated that tour operators use the terms “entrepreneurship” and “small business management” interchangeable and do not distinguish between the different characteristics as portrayed in academic literature. The understanding of entrepreneurship was included in the 2010/11 survey amongst tour operators and required a response in terms of the unique character of the business and the most suitable incentives needed for fast growth, entrepreneurial businesses.

5.4.2 Black Economic Empowerment research component

The Tourism BEE Charter and Scorecard identifies two main challenges facing the tourism sector in South Africa, namely the challenge to become more competitive in the global market and the need to include black people in the tourism sector. The Tourism BEE Charter and Scorecard refers to the three core elements of BEE as being the direct empowerment through the ownership and control of enterprises and assets; the development of the human resource in tourism and the indirect empowerment through preferential procurement and enterprise development (DEAT, 2005:4).

The main focus of the direct empowerment is to increase the number of black people as equity holders, executives, owners and managers of economic resources in this industry. The Human Resource component is aimed at improving employment equity and to further develop skills in the tourism sector. The indirect empowerment component enables and encourages enterprises to facilitate broad-based BEE in communities and entities that they deal with. To this extent preferential procurement is instituted to create market access for black entrepreneurs. Entrepreneurs are further supported by the Enterprise Development component of the Charter, which assists with the enhancement and creation of the entrepreneur’s operational and financial capacity (DEAT, 2005:4).

The availability of information in terms of BEE in tourism, and specifically the Tour-Operating sector in South Africa, is scarce. In an attempt to determine the integration of the BEE factors in the Tour-Operating sector, the questionnaire consisted of a section on BEE and included questions on principle support for BEE, Employment Equity, Black Ownership and Management, Preferential Procurement and Incentives that would encourage BEE.

5.4.3 Tour-operator research component

In order to generate information from tour operators in South Africa, South African Tourism was contacted to determine the universe of this target group. Unfortunately this body could not provide any accurate information on the size of the tour operating industry. This sector is deregulated to the extent that individual tour operators do not have to register with any industry governing body and starting a new operation can go undetected by these bodies.

The umbrella body for tour operators are known as the South African Tourism Services Association (SATSA) and their voluntary tour operator members, number approximately 335 for 2010. The researcher compiled a tour operator database by collecting information from South African Tourism, SATSA and provincial tourism authority databases. There were many tour operators listed in these databases that no longer existed and a great deal of overlap occurred between databases. After duplicate names were discarded, the researcher contacted all tour operators on the new database by calling their telephone or fax numbers as well as contacting them by email. In this manner a database of 370 tour operators were compiled that compared favourably with the SATSA national database of 335 members.

During 2004 the researcher conducted a pilot survey amongst tour operators in South Africa and the outcomes of this study contributed to the design and compilation of the 2010/11 questionnaire. This questionnaire was utilised in conducting a survey, during December 2010 and February 2011, amongst tour operators. The researcher e-mailed

the questionnaire to tour operators on the new database and a repeat email was sent to remind them of the closing date for submissions. Questions raised by the recipients were addressed via email as well as telephonic discussions, and a total of 845 emails were sent to the industry to gather primary information. Once the completed questionnaires were received from the industry, they were captured electronically as well as hard copies printed and coded for reference purposes. All tour operators that did not respond after two weeks were contacted telephonically and encouraged to participate in the survey. Some hostility were experienced as some respondents refused to disclose their position on Black Economic Empowerment and accused the researcher of sourcing information for the national government.

A total number of 73 questionnaires were received and if expressed as a percentage of the new database (370 entries) of tour operators a response rate of 20% was achieved. According to a communication by Mr Norbert Haydam, tourism research specialist at CPUT a response rate of between 4% and 5 % is normally achieved in tourism surveys conducted in South Africa. Due to the lack of an official tour operator database, the survey method was followed by a focus group meeting conducted in Durban during the Tourism Indaba 2011. These experts provided input in terms of the research methodology, findings and recommendations emanating from the study.

5.7 Designing the Questionnaire

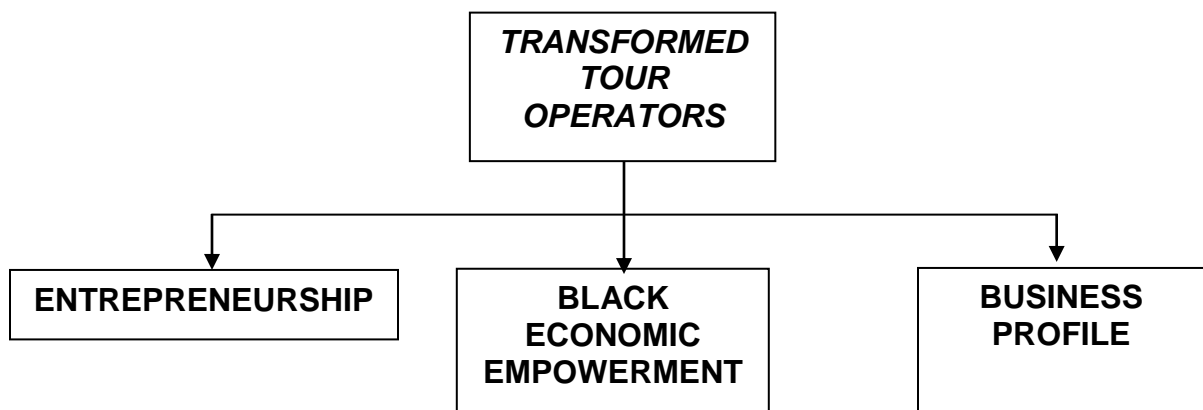
In designing the questionnaire and determining the relevant questions to be formulated, the dendrogram technique was used. The dendrogram is used to structure questions based on all the knowledge gained from the theoretical and literature study that have taken place prior to constructing the questionnaire. This technique is based on a hierarchical structuring of answers to a specific question.

Each possible answer is then further broken down to the next level of answers until there are only two or more possible answers to the question. On no account should there be only one answer to a question as this could be the result of a miss-

conceptualisation of the possible answers. In such a case the latter answer could be incorporated at the higher level of answer by means of re-conceptualisation.

5.7.1 Primary level of questions

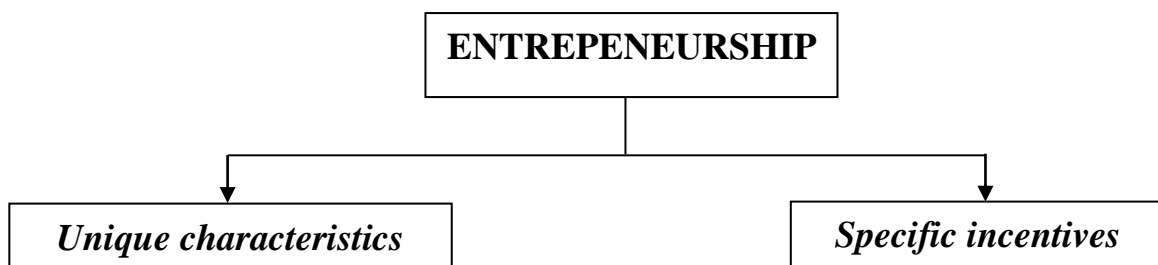
The main aim of the questionnaire was to determine the transformation of tour operators in South Africa in terms of Entrepreneurship and Black Economic Empowerment. To this extent questions were formulated to generate primary data in terms of the Business profile, Entrepreneurship and Black Economic Empowerment.



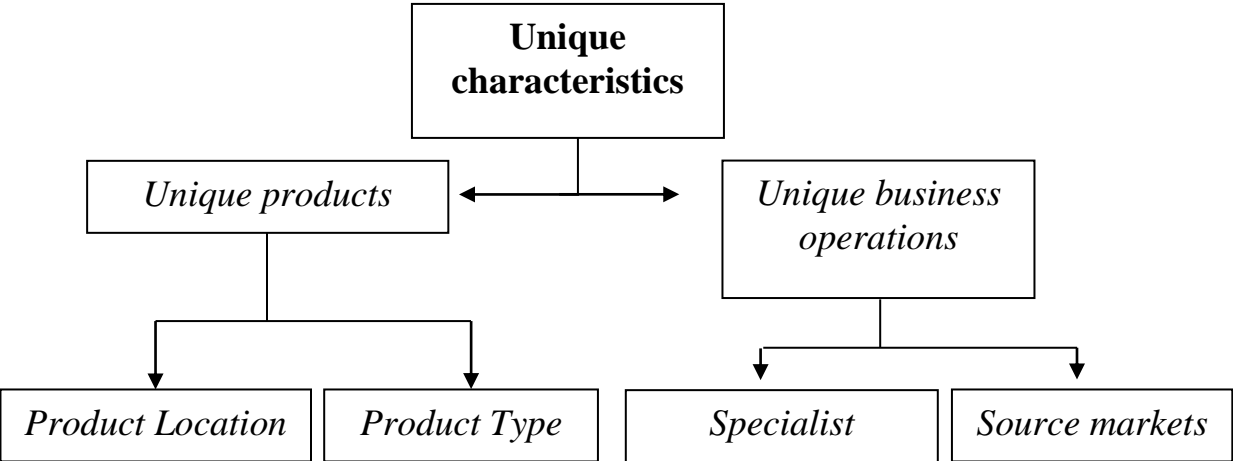
The Entrepreneurship questions generated answers in terms of the uniqueness of the products as well as the incentives needed to stimulate entrepreneurial and business growth.

5.5.2 Secondary levels of questions

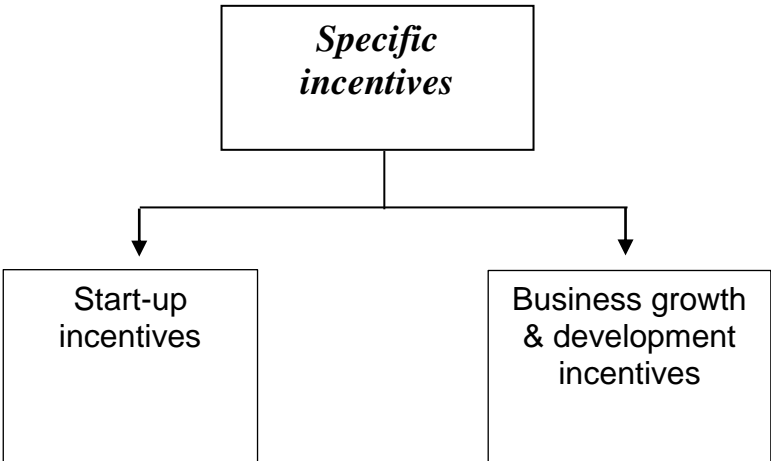
The next level of questions provided more detail on the first level of questions and generates primary data in terms of the study objectives.



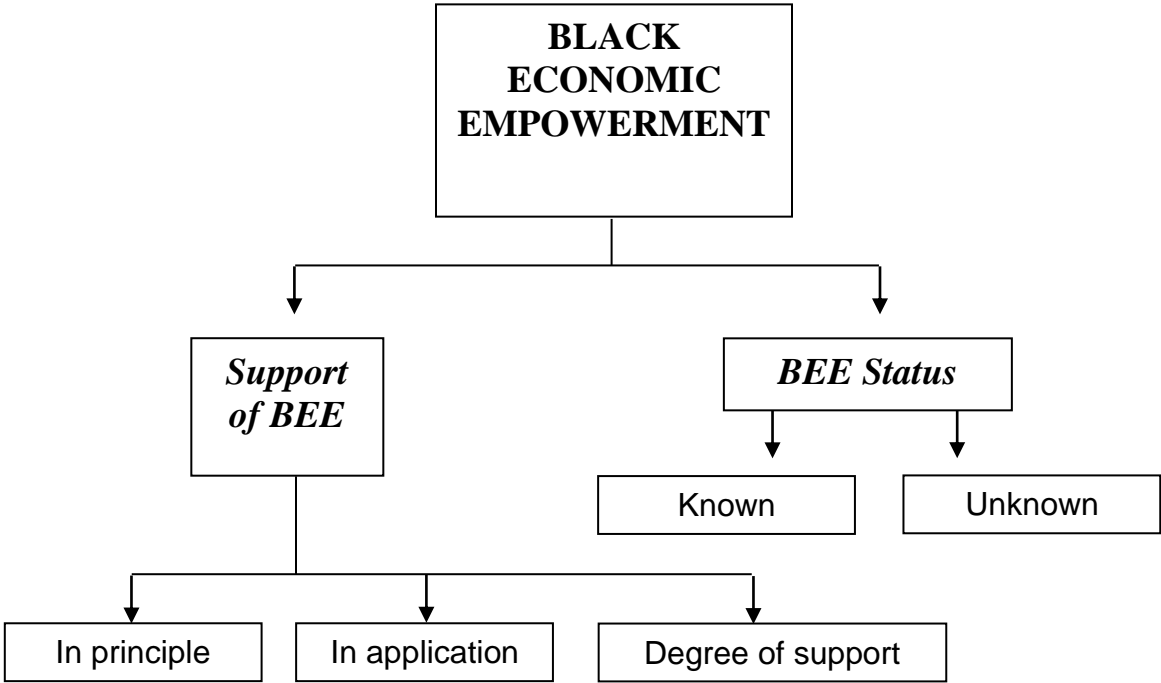
The question on the uniqueness of individual tour operators could yield responses in terms of unique products or product composition as well as the way in which business is conducted.



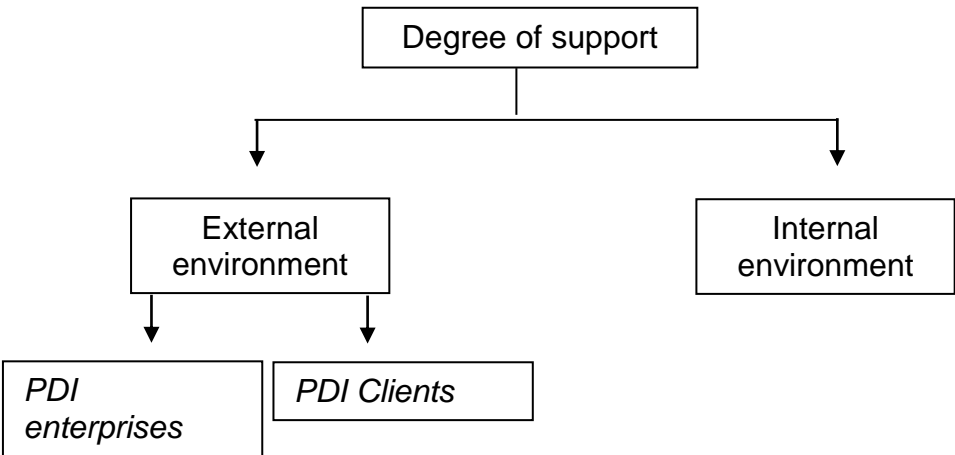
The question on incentives for the tour operating sub sector could have various responses but are clustered into two main groups that consist of incentives for start-ups and those for existing businesses.



The next main question was the level of Black Economic Empowerment in the tour operating industry in South Africa.



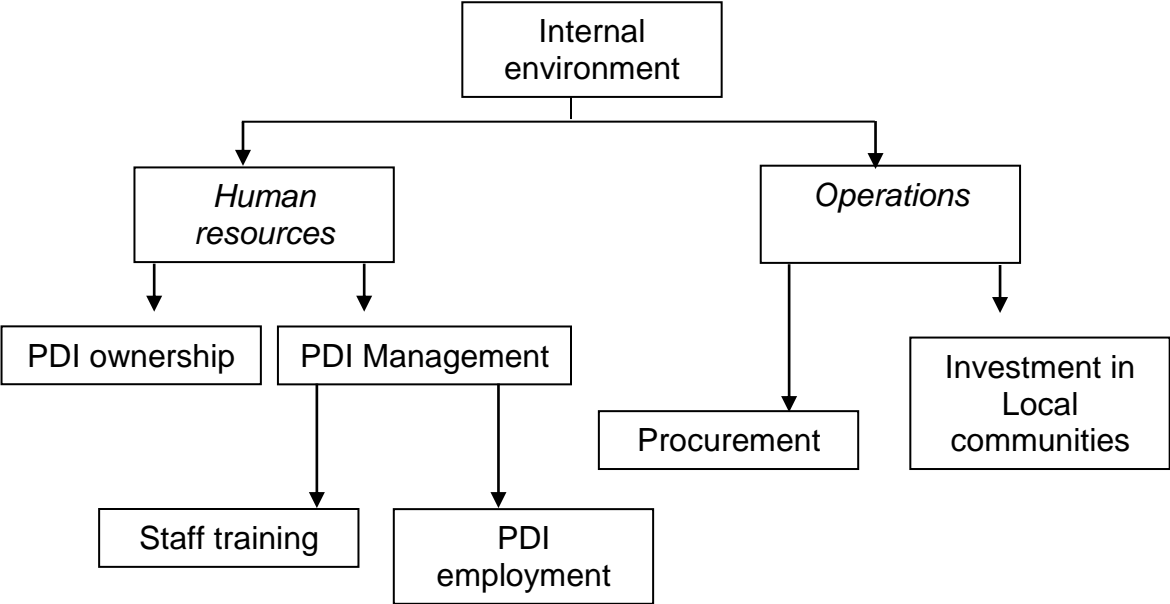
The challenge was to determine support levels for BEE amongst tour operators but also to determine if support is applied in the same degree. The next level of questions was aimed at determining what proportion of business activities are aimed at BEE.



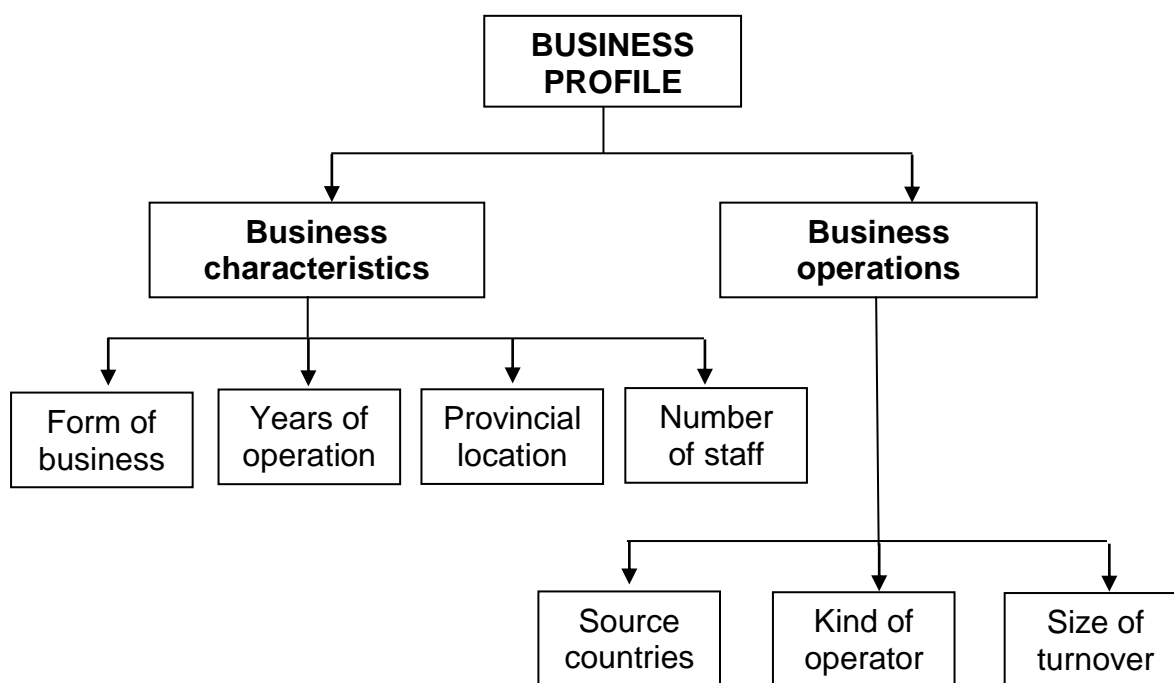
The degree of implementation was further segmented into the external and internal environments of the enterprise. The external environment was segmented into the proportion of business conducted with PDI enterprises and the proportion of PDI clients that the business has. The internal environment consists of the human resource component and the business operations section that support BEE.

In terms of human resources the researcher endeavored to determine the level of ownership by PDI's as well as the management component that consists of black people. The PDI management question was segmented into the percentage of staff training devoted to black people as well as the percentage of black people employed in the business.

The questions relating to business operations were segmented into the levels of procurement from PDI's as well as the percentage of turnover invested in local communities.



Questions relating to the business profile were segmented into business characteristics and business operations. The business characteristics included questions on the form of business, years in operation, location and number of people employed. The segment on business operations included questions on type of operation, size of turnover and source countries of clients.



Apart from the three main levels of questions i.e., Entrepreneurship, Black Economic Empowerment and Business profile, the researcher endeavored to find solutions to the challenges that tour operators face. To this extent questions were asked on the human resource development requirements and included questions on key skills, training courses, the kind of training preferred as well as format of tuition.

The questionnaire was concluded by asking respondents to provide any general comments and recommendations. They were also invited to provide their contact details if they wanted the researcher to be able to interact with them in the future. This was also important in terms of anonymity and the ability to clarify questions and responses, if required.

5.8 Data processing

The questionnaires were received via email, printed and coded for processing and filing purposes. The target audience was encouraged to complete the survey and contact details including emails, postal address and telephone numbers were supplied to clarify any issues that they might needed clarity on.

The researcher chose to use SPSS (Version 18), after consultation with the statistician of the Cape Peninsula University of Technology responsible for further studies. This programme (SPSS) is made available under license to the institution and students are encouraged to make use of this computer programme as it meets the required standards of the institution. The researcher used the PASW Statistics 18 version for the purposes of this study. The data extracted from the questionnaires were tabulated according to the questions asked and responses to open-ended questions were grouped according to their similarities.

Once the data was processed, the researched could extract figures and tables depicting the results of the research. These tables were utilized to depict the levels of support for BEE as well as the characteristics of the tour operating sub-sector in South Africa. Responses in terms of incentive programmes were tabulated and recommendations consolidated to assist government in designing suitable support packages for the industry to grow and expedite BEE.

The researcher opted for the hypothetico- deductive method to test the results of the null hypothesis for:

- i) Support for BEE in principle
- ii) Support for BEE in application
- iii) Correlation between size of the enterprise and BEE support (principle and application).

This method is used (Clark *et al.*, 1998:10) to study a phenomenon and formulate ideas about its character and behavior. These ideas are then formulated into a hypothesis, which is a statement about the phenomenon, which is then tested. The aim of testing the hypothesis is to accept or reject the hypothesis by means of statistical tests that estimate the probability of sample outcomes if assumptions regarding the population are true (the null hypothesis). The null hypothesis is also known as the statement of “no difference” and assumes that the population, from which the sample was extracted, has characteristics with a certain value (Healey *et al.*, 1999:198). The null hypothesis is the hypothesis a researcher tries to disprove and it normally represents the current view of an aspect in the world that the researcher wants to challenge (<http://www.experiment-resources.com/research-methodology.html>) [Accessed: 24 July 2010].

The statistical tests that was utilized to determine if the null hypothesis could be accepted or rejected was the Chi Square test.. This technique is used to determine if the observed values and the expected values are close or far from each other. If these values are close to each other, then the null hypothesis is accepted (Navidi, 2010: 240).

The formula used is:

$$\chi^2 = \sum \frac{(\text{Observed frequency} - \text{Expected frequency})^2}{\text{Expected frequency}}$$

The results of these tests are depicted in chapter six and the acceptance or rejection of the null hypothesis explained.

5.9 Focus group session

During the Tourism Indaba in Durban, the researcher conducted a focus group meeting with the Chief Executive Officer of the Southern African Tourism Services Association (SATSA), Mr. Michael Tatalias as well as the President of SATSA, Ms. Heather Gutierrez. The reason why these two people were identified for the focus group discussion was their unbiased positions as CEO and President of the industry body SATSA. Al though other tour operators could have been selected for the focus group session at Indaba, the researcher decided against this practice as the selection would

not have been based on representation throughout South Africa and only represented those who attended Indaba. The questionnaire was discussed in an extensive meeting that analyzed the formulation of the questions, the answering options presented to the target audience, the methodology applied in conducting the survey. The members of the focus group were satisfied that the questionnaire was designed in an understandable format comprising of suitable questions and terminology. They supported the methodology deployed and concurred with the researcher on the difficulties in estimating the size of the tour operating population.

The second part of the session was devoted to the discussion of the results of the survey. The main issues discussed were the nature of tour operating, the difficulties in applying transformation, and the lack of appropriate support as well as the lack of acknowledgement for the transformation achievements reached thus far. These issues are reported on in more detail in section 6.8 of this study. The focus group meeting was concluded by the members signing off on the study and its accompanying results (Annexure 6). The focus group members expressed their sincere appreciation for this study as it provides much needed primary research information on the tour operating sub-sector and its progress in terms of transformation.

CHAPTER SIX

EMPIRICAL RESEARCH AND FINDINGS

6.1 Survey findings 2010/2011

In Chapter Five the researcher explained the methodology applied in this study as well as the dendrogram technique in compiling the questionnaire. The composition of the 2010/11 survey and the application of the survey technique were based on private and public sector discourse as well as the findings and experience gained during the 2003/4 survey amongst tour operators in South Africa as well as international tourism professionals attending the Tourism Destination Management courses in Brugge during 2002, 2003 and 2004. The following results were obtained from conducting a survey during 2010/11 amongst tour operators in South Africa. The survey was administered during 2010 (November/December) and 2011(February).

6.2 Business profile

The business profile questions were segmented into the business characteristic and business operation questions. The business characteristic questions yielded results in terms of the form of business, years in existence, provincial location, and number of part time and full time employees. The business operation questions yielded results in terms of size of turnover, kind of operator and source countries for the business.

6.2.1 Business Characteristics

These are factors that reveal the nature of the business and traits by which the business can be identified.

6.2.1.1 Form of business

The vast majority of respondents (72,2%) reported that they were operating businesses that are constituted as Close Corporations whilst Companies were the next most popular

form of tour operating business (15,3%). The creation of close corporations were specifically designed to suite small business owners and created a vehicle that reduced legal and accounting requirements before a business can be registered (Nieman *et al.*, 2004:116).

Table 6.1 Form of Business

		Form of Business		Valid Percent	Cumulative Percent
		Frequency	Percent		
Valid	Close Corporation	52	71.2	72.2	72.2
	Company	11	15.1	15.3	87.5
	Partnership	3	4.1	4.2	91.7
	Sole Proprietary	6	8.2	8.3	100.0
	Total	72	98.6	100.0	
Missing	System	1	1.4		
Total		73	100.0		

6.2.1.2 Years in existence

The majority of respondents found themselves in businesses that were in existence between 6-10 years (36,1%) whilst 33,3% were in businesses operating for more than 10 years. The percentage of “new” businesses were only 4,2% of the respondents and were in existence for two year or less.

6.2.1.3 Provincial location

The bulk of respondents were located in the Western Cape (73,6) but the result has been influenced by the fact that Cape Town Tourism encouraged their members to participate in the survey. A total of 19 respondents out of the total of 53 Cape Town based respondents replied to the questionnaire via the Cape Town Tourism call for participation. Irrespective of this influence, the majority of respondents (91,7%) are located in Gauteng or the Western Cape.

6.2.1.4 Employment figures

The respondents indicated that 63,9% of tour operating companies employed two or less full time employees (table 6.2). An important finding is that 36,1% of respondents employ one or less full time employees. This can have a significant impact on the BEE scorecard of white owned/operated tour operating businesses consisting of only one person. They will not be able to score points on Ownership, Management (Board of Directors or Executive Management) or Employment Equity. Even the fourth pillar of the BEE scorecard, Skills Development will be a challenge unless they invest in skills development outside their enterprise.

Table 6.2 Full time employees

		Full time employees			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	2	2.7	2.8	2.8
	1	24	32.9	33.3	36.1
	2	20	27.4	27.8	63.9
	3	7	9.6	9.7	73.6
	4	2	2.7	2.8	76.4
	5	3	4.1	4.2	80.6
	6	1	1.4	1.4	81.9
	7	1	1.4	1.4	83.3
	8	2	2.7	2.8	86.1
	9	2	2.7	2.8	88.9
	11	1	1.4	1.4	90.3
	18	1	1.4	1.4	91.7
	19	1	1.4	1.4	93.1
	35	1	1.4	1.4	94.4
	36	3	4.1	4.2	98.6
	40	1	1.4	1.4	100.0
	Total	72	98.6	100.0	
Missing	System	1	1.4		
	Total	73	100.0		

A total of 46,5% of respondents do not employ part-time employees with 16,9% indicating that they do employ one part-time employee. During the focus group meetings it became evident that some respondents included themselves in this data whilst others did not. In some cases owner–operators did not see themselves as employees of the business but rather as active business owners whilst others included themselves as employees of the business. The data indicate a high number of businesses with one employee as well as a number with zero employees, which clearly illustrate this interpretation difference. Figure 6.1 illustrates the number of full time employees working at tour operators in South Africa. It is clear from this figure that the vast majority of tour operators employ two or less full time employees.

Figure 6.1 Full time employees

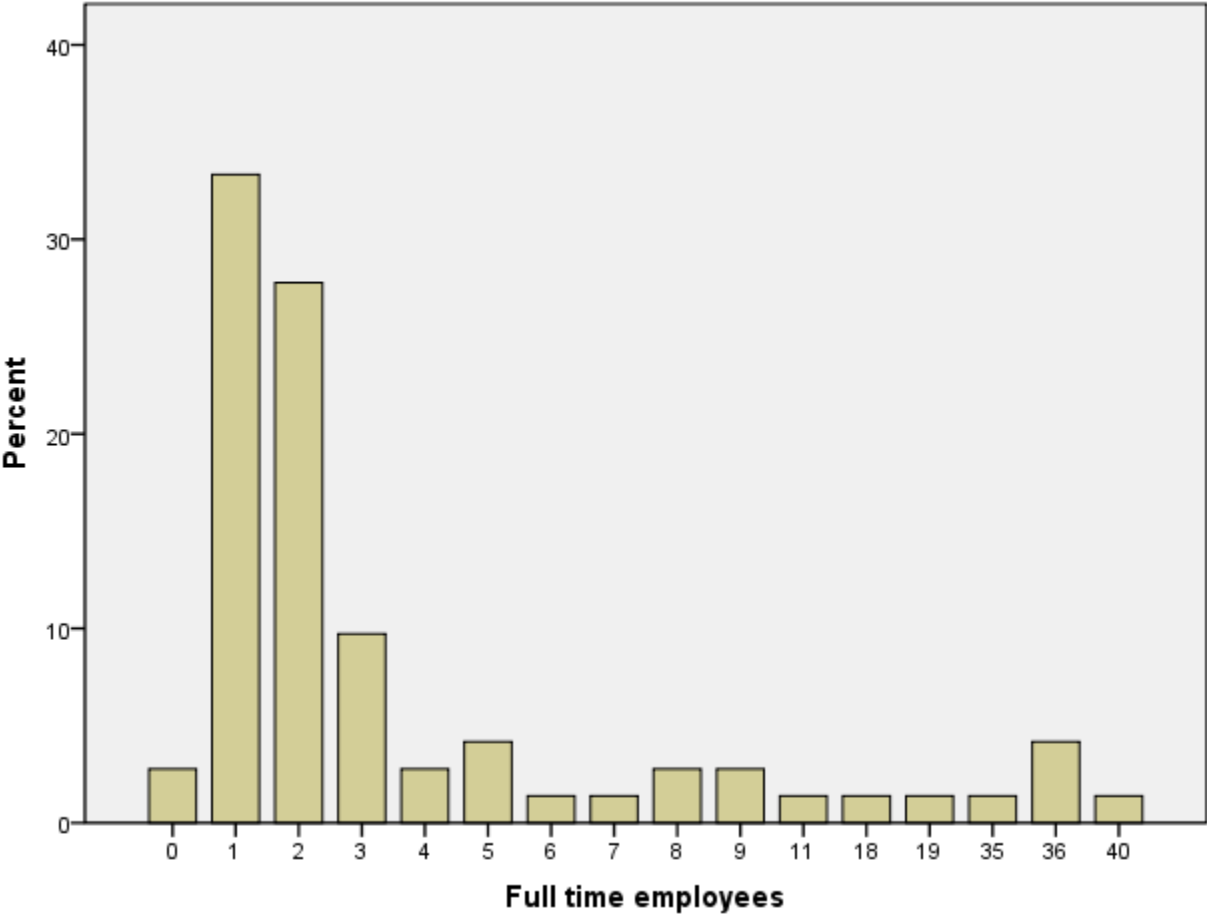


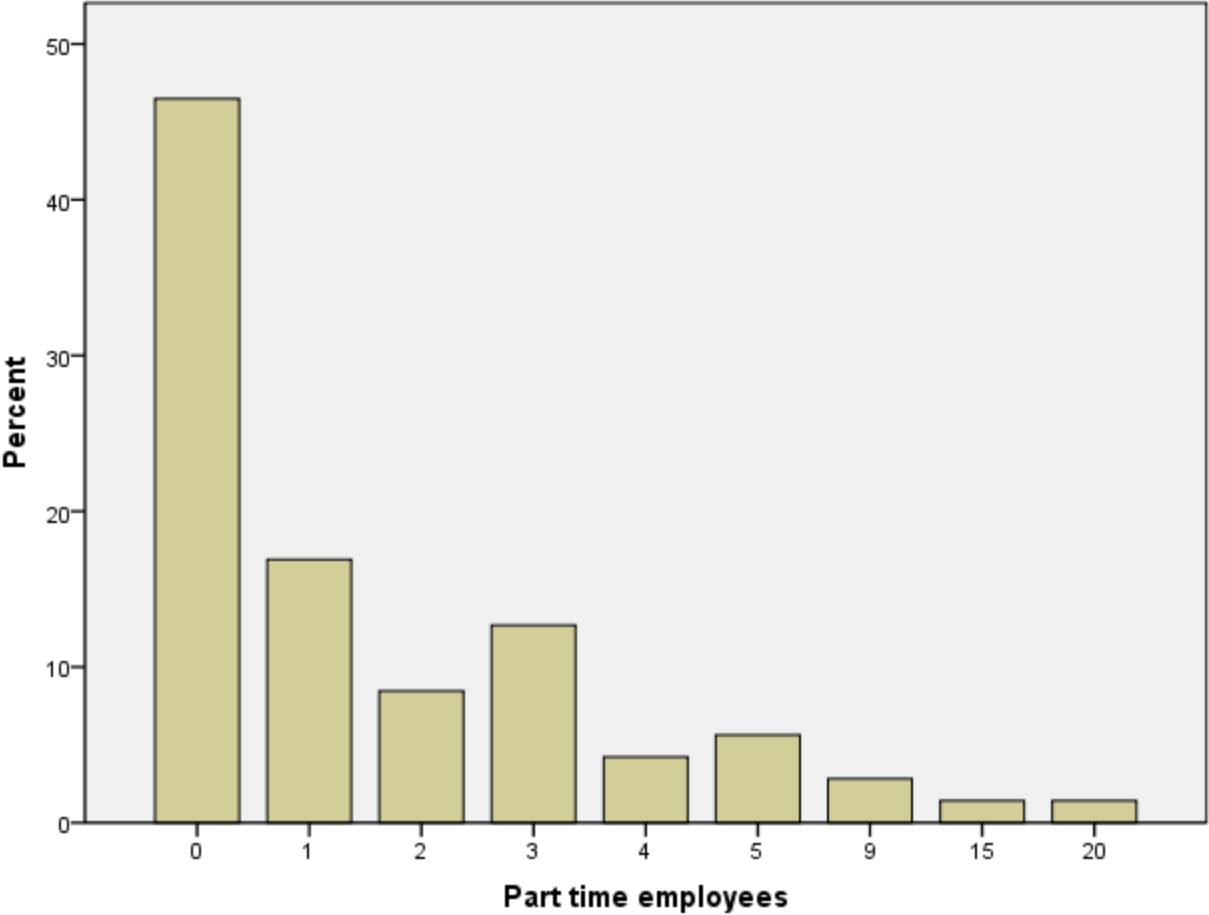
Table 6.3 indicates the number of part time employees that are employed by tour operators in South Africa. The employment trend are similar to that of full time employees although there is a higher cumulative percentage for part time employees for up to three people compared to the corresponding cumulative percentage of full time employees. The sporadic or seasonal nature of the tourism industry can be a contributory factor to employing part time employees instead of full time employees.

Table 6. 3 Part time employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	33	45.2	46.5	46.5
	1	12	16.4	16.9	63.4
	2	6	8.2	8.5	71.8
	3	9	12.3	12.7	84.5
	4	3	4.1	4.2	88.7
	5	4	5.5	5.6	94.4
	9	2	2.7	2.8	97.2
	15	1	1.4	1.4	98.6
	20	1	1.4	1.4	100.0
	Total	71	97.3	100.0	
Missing	System	2	2.7		
	Total	73	100.0		

Figure 6.2 indicates the employment trend of part time employees with a high number (compared to the full time employees) of respondents that indicated that they employ zero part time employees. In figures 6.1 and 6.2 it is evident that the vast majority of tour operators employ small numbers of employees on a part time or full time basis. The sub-sector is therefore characterised as one that is dominated by micro to small enterprises if measured in terms of the number of employees.

Figure 6.2 Part time employees



6.2.2 Business operations

The businesses can be divided into different segments that reflect the nature of the business as well as the size of the operation.

6.2.2.1 Annual turnover

One of the measures to determine the size of an enterprise is the annual turnover of the business. During the 2004/5 survey conducted amongst tour operators, many

respondents were reluctant to answer this question. In order to curb this problem the researcher created turnover categories based on the responses from the industry during the 2004/5 survey. The 2010/11 survey indicated that 94,5% of respondents did complete this section on annual turnover. A total of 62,3% of respondents indicated a turnover of R2,5million or less with 30,4% indicating a turnover of less than R500 000 per annum.

The current threshold for BEE exemption is determined at a turnover of less than R2,5 million per annum and although this constitutes a large portion of respondents, the cumulative monetary value is small if compared to 5,8% of respondents that fall in the turnover category of “above R30 million to R50 million” per annum and 2,9% of respondents in the category “over R80 million to R100 million” per annum. The previous threshold was determined at R5 million turnover per annum and the reduction to R2,5 million has reduced the number of exempted tour operating enterprises from 78,3% to 62,3% if the cumulative percentages are taken into account (Table 6.4). This reduction in threshold should be seen against the background of small turnovers and limited profit margins and the limited impact it can have on BEE implementation.

Table 6.4 Turnover categories per annum

		Turnover			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	R500 000 or less	21	28.8	30.4	30.4
	Over R500 000 to R1 million	11	15.1	15.9	46.4
	Over R1 million to R2,5 million	11	15.1	15.9	62.3
	Over R2,5 million to R5 million	11	15.1	15.9	78.3
	Over R5 million to R10 million	7	9.6	10.1	88.4
	Over R10 million to R15 million	1	1.4	1.4	89.9
	Over R15 million to R20 million	1	1.4	1.4	91.3
	Over R30 million to R50 million	4	5.5	5.8	97.1
	Over R80 million to R100 million	2	2.7	2.9	100.0
	Total	69	94.5	100.0	
Missing	System	4	5.5		
	Total	73	100.0		

6.2.2.2 Kind of tour operator

The tour operators can be classified into three categories including inbound, outbound and local tour operators. These categories are not mutually exclusive and some tour operators indicated more than one category. The majority of respondents were inbound (73,6%) and local (22,2%) tour operators with only 4,2% indicating outbound operations. In terms of the objective to further black economic empowerment, the local or inbound tour operators have influence on tourism product packaging within South Africa whilst outbound operators do not compile products from local tourism services and products.

6.2.2.3 Source countries

The United Kingdom, United States of America and Germany are the top three source countries for tour operators based in South Africa. The order of importance is also the same as above.

Table 6.5 Major sources markets ranked

<i>Source country</i>	<i>United Kingdom</i>	<i>USA</i>	<i>Germany</i>
Main country	31	9	12
Second country	16	18	7
Third country	6	11	7
TOTAL	53	38	26

Table 6.5 depicts the main source markets for tour operators and also indicates the ranking of these countries. The United Kingdom and Germany were for many years the main source countries for South Africa but since the Soccer World Cup in 2010 in South Africa, the United States of America (USA) has moved up to the second most important source country. Although tour operators indicated Germany as the second most important source market after the UK, they are outranked by the USA as second and third most important source country.

6.3 Black Economic Empowerment

The questions on Black Economic Empowerment can be divided into the segments of BEE status and Support for BEE.

6.3.1 BEE Status

The BEE status of four operating businesses were mostly unknown and constitute 49,3% of all respondents, whilst only 16,9% had a verified BEE status confirmed by an external body. A significant number of tour operators (32,4%) indicated that they have assessed themselves in terms of the BEE scorecard but did not indicate the outcomes of these assessments.

Table 6.6 BEE status of businesses

		BEE Status of business			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	Self-assessed	23	31.5	32.4	32.4
	Verified Level	13	17.8	18.3	50.7
	Unknown	35	47.9	49.3	100.0
	Total	71	97.3	100.0	
Missing	System	2	2.7		
	Total	73	100.0		

6.3.2 BEE support

The industry has indicated support for BEE during the consultative process in compiling the BEE score card. The researcher attempted to determine to what extent this support reflected support for the principle of BEE as well as the application of BEE in their businesses, and the degree of support.

6.3.2.1 Support in principle

The researcher attempted to gain information on the support for the principle of BEE amongst tour operators by providing them with three options to choose from: fully support, partly support and do not support.

Table 6.7 Support for the principle of BEE

		degree of support for the principle of BEE			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	fully support	15	20.5	22.1	22.1
	partly support	34	46.6	50.0	72.1
	do not support	19	26.0	27.9	100.0
	Total	68	93.2	100.0	
Missing	System	5	6.8		
	Total	73	100.0		

The respondents indicated that 72,1% of them support BEE in principle consisting of 22,1% that fully support and 50% that partly support BEE in principle. A total of 27,9% indicated that they do not support BEE in principle.

6.3.2.2 Support in application of BEE

When the respondents were asked on the application of BEE, the percentage for applying it in full or partly were 61.8% whilst 38,2% indicated that they do not apply BEE in their businesses. The difference between the support for BEE in principle and the support in the application of BEE in their businesses are evident in tables 6.6 and 6.7.

The percentage of tour operators that do not support BEE in principle is depicted as 27,9% (Table 6.7) whilst the percentage of tour operators that do not support BEE in the application thereof rises to 38.2% (table 6.8).

Table 6.8 Support in the application of BEE

		degree of application of BEE			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	fully apply	11	15.1	16.2	16.2
	partly apply	31	42.5	45.6	61.8
	do not apply	26	35.6	38.2	100.0
	Total	68	93.2	100.0	
Missing	System	5	6.8		
	Total	73	100.0		

The challenge would be to assist tour operators in applying BEE on a broader scale and to improve the integration of business operations and product development in a way conducive for business growth and BEE advancement at the same time. The researcher further segmented the BEE questions into those reflecting BEE application in business characteristics as well as in business operations.

- a) In terms of turnover generated from doing business with PDI's, 56,9% of respondents indicated that zero percent of their turnover is generated in this way. At the same time 15,7% of tour operators indicated that they generate between 1% and 5% of their turnover in this manner, with a further 9,8% of respondents indicated that this percentage range between 15% and 20%. A further 9,8% indicated that 50% of their turnover are generated by doing business with PDI's.
- b) In terms of the percentage of clients that are black, 44,2% of respondents indicated that they have no black clients whilst 25% indicated that between 1% and 2% of their clients are black.
- c) In terms of the percentage of management staff that are PDI's, 64,7% indicated that they have zero PDI's as part of the management team.

Table 6.9 Percentage of management that are PDI's

percentage of management that are PDI's					Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	.00	33	45.2	64.7	64.7
	1.00	2	2.7	3.9	68.6
	20.00	2	2.7	3.9	72.5
	25.00	3	4.1	5.9	78.4
	30.00	2	2.7	3.9	82.4
	50.00	2	2.7	3.9	86.3
	60.00	2	2.7	3.9	90.2
	70.00	1	1.4	2.0	92.2
	100.00	4	5.5	7.8	100.0
	Total	51	69.9	100.0	
Missing	System	22	30.1		
	Total	73	100.0		

- d) The ownership of four operating enterprises yielded a response of 77,6% of owners that are not PDI's whilst 14,3% indicated that they are 100% owned by PDI's.

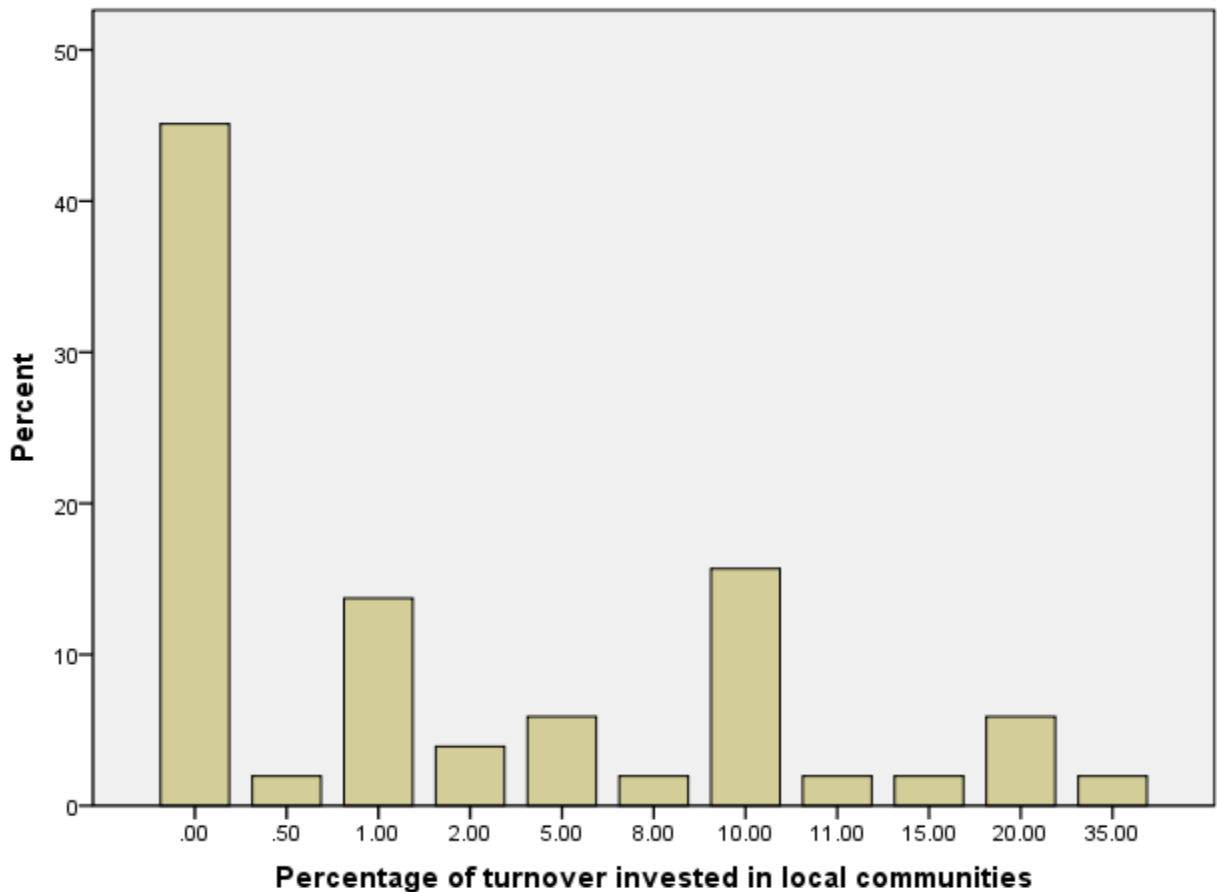
Table 6.10 Percentage of business owners that are PDI's

percentage of business ownership by PDI's					Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	.00	38	52.1	77.6	77.6
	1.00	1	1.4	2.0	79.6
	30.00	1	1.4	2.0	81.6
	50.00	1	1.4	2.0	83.7
	59.00	1	1.4	2.0	85.7
	100.00	7	9.6	14.3	100.0
	Total	49	67.1	100.0	
Missing	System	24	32.9		
	Total	73	100.0		

- e) The responses on the percentage of turnover that was invested in local communities indicated that 45,1% of respondents made no investments in

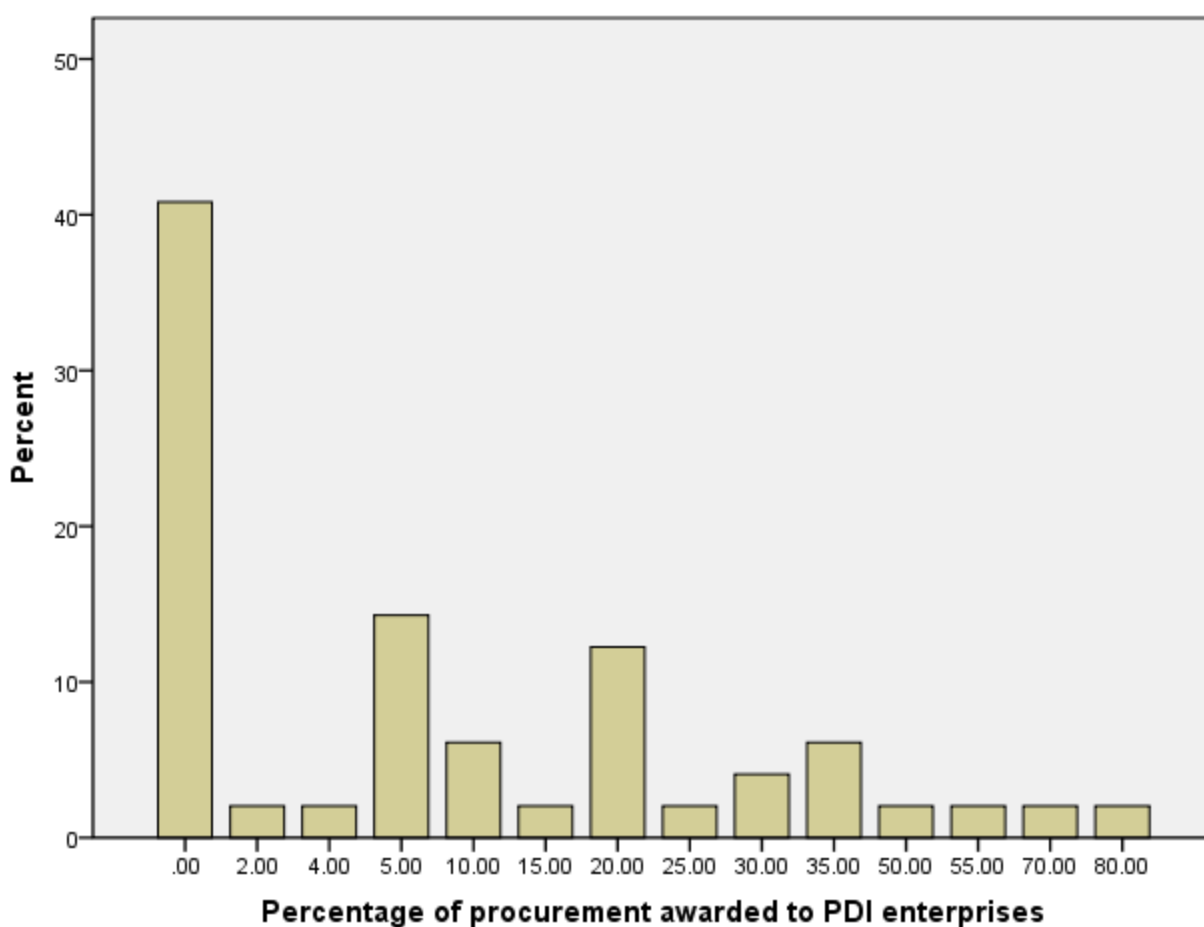
local communities. At the same time 23,5% of respondents indicated that between 1% and 5% of turnover was invested in local communities. There were enterprises that indicated higher percentages and 15,7% of respondents indicated that 10% of turnover is invested in local communities whilst 5,9% indicated that 20% of turnover was invested in this manner. During the focus group meeting the high percentages of turnover invested in local communities were clarified by the interpretation of the term "investment" as it was interpreted as all involvement in local communities by tour operators. These included contributions to community projects as well as procuring goods and services from local communities (including local employment).

Figure 6.3 Percentage of turnover invested in local communities



f) In terms of procurement and the percentage devoted to PDI's ,respondents indicated that 40,8% of them made no procurement from PDI's whilst 14,3% allocated 5% of their procurement to PDI's and 12,2% indicated a PDI procurement figure of 20%. There were also a segment of the respondents that indicated higher procurement figures from PDI's and 10,2% indicated that they procure between 30% and 35% from PDI's whilst 8% indicated a figure of between 50% and 80% procurement from PDI's.

Figure 6.4 Percentage of procurement awarded to PDI enterprises

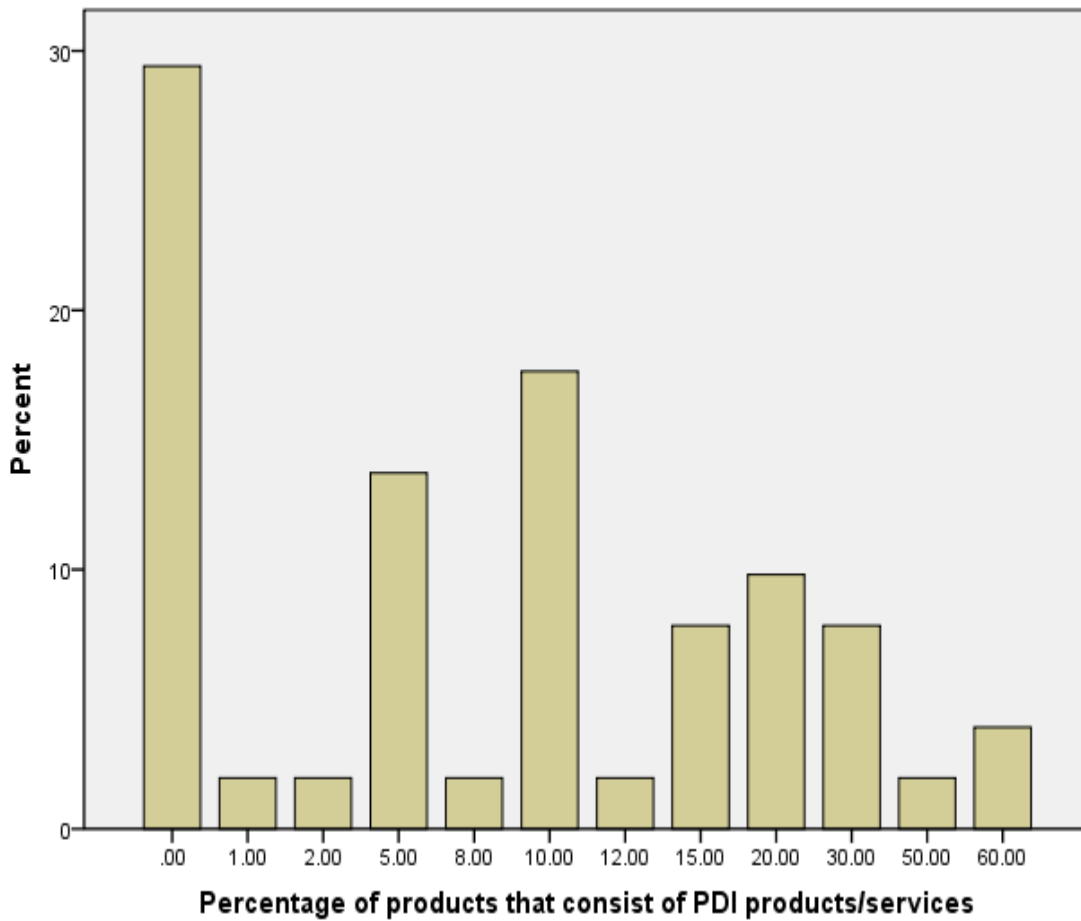


g) Four operators were also asked to indicate what percentage of their product mix consisted of products obtained from PDI's. Respondents indicated that 29,4% of them had no products of this nature and 13,7% indicated that 5% of their products were sourced from PDI's. The researcher noticed a declining

percentage of respondents as the level of PDI product inclusion, increased.

To this extent 17,6% of respondents indicated that 10% of their products were PDI's products, 7,8 % indicated that 15% apply to them, whilst 9,8% indicated a 20% PDI product component and 7,8% a 30% PDI component.

Figure 6.5 Percentage of products consisting of PDI products/services



- h) In terms of training budgets being devoted to PDI training, 79,2% of respondents indicated that they devote no training funding to PDI's.
- i) Staff composition reflects that 46,2% of respondents do not employ PDIs whilst 5,8% employ 25 PDI 's in their total workforce. There are 9,6% of respondents that reflect employment figures of a 100% PDI's employed, 7,7% employ 80% PDIs and 7,7% employ 50% PDI's in their enterprises.

Table 6.11 Percentage of staff that are PDI's

		percentage of staff that are PDI's			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	.00	24	32.9	46.2	46.2
	1.00	1	1.4	1.9	48.1
	3.00	1	1.4	1.9	50.0
	10.00	1	1.4	1.9	51.9
	15.00	1	1.4	1.9	53.8
	20.00	1	1.4	1.9	55.8
	25.00	3	4.1	5.8	61.5
	27.70	1	1.4	1.9	63.5
	30.00	3	4.1	5.8	69.2
	50.00	4	5.5	7.7	76.9
	70.00	2	2.7	3.8	80.8
	80.00	4	5.5	7.7	88.5
	85.00	1	1.4	1.9	90.4
	100.00	5	6.8	9.6	100.0
		Total	52	71.2	100.0
Missing	System	21	28.8		
	Total	73	100.0		

6.4 Tourism incentives

The researcher attempted to extract information from tour operators to determine if they have made use of tourism incentives in the past. The objective was to determine if the incentives were utilised or if other incentives needed to be introduced for tour operators.

6.4.1 Utilisation of tourism incentives

The table below indicates that 73,1% of respondents did not use any tourism incentives in the running of their businesses.

Table 6.12 Tourism incentives used by Tour operators

		tourism incentives used			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	no	49	67.1	73.1	73.1
	yes	18	24.7	26.9	100.0
	Total	67	91.8	100.0	
Missing	System	6	8.2		
	Total	73	100.0		

6.4.2 Incentives recommended

Although the researcher segmented the question on incentives required (BEE incorporation, start-up funding, etc.), respondents did not indicate a specific incentive for specific functions but rather indicated overall needs in terms of incentives. To this extent 50% of respondents indicated marketing and advertising incentives as critical to their business. In some cases the now defunct International Marketing Assistance Scheme (ITMAS) were recalled to assist in this regard.

The second most requested incentive (20%) was that of capital assistance in expanding enterprises (vehicles, BEE incorporation, etc.). Start-up finances and website assistance was also mentioned as ways to support the local tour operating sub-sector. A small number of respondents (10%) indicated that no incentives were needed and that mere hard work was required to be successful. A further 10% indicated that they required support in terms of training needs of tour operators. This requirement is further refined in section 6.5 in order to design specific programmes and training interventions that will satisfy tour operator training needs in South Africa.

6.5 Training needs of tour operators

Training has been identified as part of the interventions needed to transform the tourism industry and to achieve the BEE targets as set by government. The challenge is to ensure that appropriate skills development and training takes place in an attempt to

transform and develop the tour operating sub-sector in South Africa. The following sections (6.5.1 and 6.5.2) portray the training needs as indicated by the respondents.

6.5.1 Key skills of tour operators

Respondents indicated that the most important skills for tour operators are those of a business nature. This was an open ended question and the researcher clustered the responses into broad categories as expressed by the results received. The five main clusters were those of Destination knowledge, Business management skills, client focused skills, communication skills and languages.

Although communication skills could form part of general business management skills it was indicated as a separate skills set due to the high value that respondents attached to it.

Table 6.13 Key skills required by tour operators

Skill cluster	Key skill 1	Key skill 2	Key skill 3	Key skill 4	Key skill 5
Destination knowledge	9	8	11	6	1
Business skills & acumen	21	21	29	23	26
Client orientation	6	9	10	14	15
Communication skills	4	6	2	8	6
Languages spoken	1	2	3	1	0

The importance of business skills were clearly illustrated in the responses from existing tour operators whom have first-hand experience in running such operations. These results were obtained from current tour operators and it would have been interesting to trace those that have closed their businesses to determine why they think they were not successful. Unfortunately this was not possible as South Africa does not have a national registration system for tour operators with contact and registration details. The business skills included general management, financial management, marketing and professional conduct.

6.5.2 Training required

One of the components of the BEE scorecard is the training component for Previously Disadvantage Individuals. The question however is which courses are applicable to the tour operating sub-sector and which courses would be most desirable for employees to follow. The table below indicate that tourist guiding, marketing, e-business, creative thinking and management courses are the most desired courses for respondents.

Table 6.14 Training courses required by tour operators for their staff

Training courses	N
general management	22
financial management	21
languages	20
law	1
marketing	33
project management	14
contracting	1
event management	16
tourist guiding	40
diversity management	7
creative thinking	25
reservation systems	17
e-business	28
other	7
Valid N (listwise)	0

The language courses recommended included English, Afrikaans, German, Xhosa, Dutch and Chinese. The response rate for each of these languages was very low although the majority of the responses referred to English as a desired course for their employees.

The tables below (table 6.13 and 6.14) reflect that the majority of respondents preferred diplomas (43,8%) and certificates (32,9%) as formal courses whilst the preferred non-formal courses were short courses (52,1%) and learnerships (41,1%).

Table 6.15 Formal training courses preferred by tour operators

		Formal training courses preferred.		
		Degrees	Diplomas	Certificates
N	Valid	8	32	24
	Percent	11,0	43,8	32,9

Table 6.16 Non-formal training courses preferred by tour operators

		Non formal training courses		
		Learnerships	Short courses	Job shadowing
N	Valid	30	38	26
	Percent	41,1	52,1	35,6

In terms of the format of tuition the respondents were keen on both residential and distance education formats with 73,9% supporting residential studies whilst 56,1% supported distance education studies. The cumulative response percentage exceeds 100% because respondents could choose both options as the options were not presented as mutually exclusive options.

Tabel 6.17 Format of tuition preferred by tour operators

		Format of tuition	
		Residential tuition	Distance tuition
N	Valid	54	41
	Percent	73,9	56,1

The preference for full-time or part-time tuition is depicted in tables 6.16 and 6.17. Respondents preferred part time tuition for both residential tuition (70,4%) and distance tuition (78%). With these options implemented, it would be possible for employees to work and study at the same time. This is especially important for small businesses that do not have big staff compliments that can stand in for absent employees.

Table 6.18 Full time or part time preference for residential tuition

		Residential tuition: full time or part time			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	full time	16	21.9	29.6	29.6
	part time	38	52.1	70.4	100.0
	Total	54	74.0	100.0	
Missing	System	19	26.0		
Total		73	100.0		

Table 6.19 Full time or part time preference for distance tuition

		Distance tuition: full time or part time			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	full time	9	12.3	22.0	22.0
	part time	32	43.8	78.0	100.0
	Total	41	56.2	100.0	
Missing	System	32	43.8		
Total		73	100.0		

6.6 Relationship between the size of an enterprise and support for BEE

The researched was keen to know if there was a relationship between the size of an enterprise and the support for BEE. The KPMG 2009 BEE survey deemed the size of enterprises in terms of their annual turnover, an important factor in accessing the progress of BEE in South Africa. They used the different turnover brackets contained in the DTI Codes of Good Practice and measured large organisations against the Generic Scorecard, medium organisations in terms of the Qualifying Small Enterprise (QSE) scorecard, and Exempted Micro Enterprises or EME's having to prove that their annual turnover does not exceed R5 million (KPMG 2009: 3). In tourism this level was reduced to R2, 5 million per annum.

6.6.1 Support for BEE in principle

The researcher deemed it necessary to refine the research in terms of BEE support in principle and support in implementation of BEE as the individual results indicated a difference in support of more than 10% between the support levels for BEE. To this extent a Chi Square test was administered to determine if there is a relationship between the size of the enterprise (in terms of turnover) and the support for BEE in principle.

H0: The support for BEE in principle is independent of the size (turnover) of an enterprise.

H1: The support for BEE in principle is related to the size (turnover) of an enterprise.

Chi-Square statistic compares the counts of categorical responses between independent groups and is used to test a null hypothesis by observing the events in a sample and comparing it to the expected results of a particular theoretical distribution. The Pearson's Chi-Square test is used to assess the tests of goodness of fit, and the tests of independence. In order to perform these calculations we need to determine how many degrees of freedom exist in our samples. This can be done by multiplying the number of columns minus one with the number of rows minus one, excluding the totals for rows and columns. If this formula is applied to the table below (table 1) we calculate [(3-1) x (9-1)] the degrees of freedom as 16. The calculation of the Chi-Square statistic is done by applying the following formula:

$$\chi^2 = \sum \frac{(\text{Observed frequency} - \text{Expected frequency})^2}{\text{Expected frequency}}$$

The Chi-Square statistic for this set of data is 20,275. If the probability level of 5% (0,05) is accepted and the degrees of freedom is determined as 16, then the corresponding value in the Chi-square distribution table is 26,30 and therefore the null hypothesis is

accepted because χ^2 (20,275) is smaller at a 5% probability level, than the table value of 26,30.

The table below indicates the cross tabulation that was performed on the size (turnover) of the enterprises and support for BEE in principle. The results indicate that there is no significant difference (at a 0,05 interval) between large and small enterprises in terms of support for BEE in principle.

Table 6.20 Cross tabulation: Size of enterprise and Support for BEE in principle

Count		Crosstab: Turnover and support for BEE in principle			
		degree of support for the principle of BEE			Total
		fully support	partly support	do not support	
Turnover	smaller than R500 000	3	11	6	20
	Over R500 000 to R1 million	5	2	3	10
	Over R1 million to R2,5 million	2	7	2	11
	Over R2,5 million to R5 million	1	7	2	10
	Over R5 million to R10 million	1	3	3	7
	Over R10 million to R15 million	0	1	0	1
	Over R15 million to R20 million	0	1	0	1
	Over R30 million to R50 million	0	2	2	4
	Over R80 million to R100 million	2	0	0	2
Total		14	34	18	66

Table 6.21 Chi-Square result: Turnover/BEE in Principle

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.275 ^a	16	.208
N of Valid Cases	66		

a. 22 cells (81.5%) have expected count less than 5. The minimum expected count is .21.

The Chi-Square test above resulted in 22 cells with expected counts less than 5 and the smallest expected count equal to 0.21. In order to reduce the number of cells with expected counts of less than 5, the researcher applied the exemption level as a mechanism to group responses (cells). The national government has lowered the exemption level for BEE compliance from R5million turnover per annum to R2, 5 million per annum and if this threshold level is applied to the data and the turnover categories above R2,5 million grouped as one category, and those below and equal to R2,5 million as another, the following results are obtained:

Table 6.22 Recoded Cross tabulation: Size of enterprise and support for BEE in principle

degree of support for the principle of BEE		Fully or partly support	do not support	Total
Turnover Recoded1	smaller than or equal to R2,5 million	30	11	41
	Over R2,5 million	18	7	25
	Total	48	18	66

The degrees of freedom is calculated as $(2-1) \times (2-1) = 1$ and with a 0, 05 probability level the calculated Chi Square value is 0, 0107 which is smaller than the table value of 3,841. This means that the Null hypothesis, that state that there is no relationship between the size of an enterprise and the support in principle for BEE, is accepted.

Table 6.23 Chi Square result for recoded data: Turnover/BEE in principle

Chi-Square Tests			
	Value	Degrees of freedom	p-value (2-sided)
Pearson Chi-Square	0.0107	1.0000	0.9175
N of Valid Cases	66	0	0
0, i.e. 0%, of expected values are less than 1			
0, i.e. 0%, of expected values are less than 5			
The minimum expected value is: 6.818			

6.6.2 Support in the application of BEE

The researcher was also curious to determine if the degree of application of BEE was related to the size of an enterprise. Again the grouping of enterprises with a turnover above R2,5 million and those equal and below R2,5 million per annum were applied. The values of Fully Support and Partly Support were grouped together as the question does not relate to the level of support but rather to support or no support.

Table 6.24 Cross tabulation: Size of enterprise/ support in application of BEE.

degree of application of BEE		Fully or		Total
		partly apply	do not apply	
Turnover Recoded1	smaller than or equal to R2,5 million	24	17	41
	Over R2,5 million	17	8	25
Total		41	25	66

The degrees of freedom is calculated as $(2-1) \times (2-1) = 1$ and with a 0,05 probability level the calculated Chi Square value is 0,5911 which is smaller than the table value of 3,841. This means that the Null hypothesis, that state that there is no relationship between the size of an enterprise and the support in application for BEE, is accepted.

Table 6.25 Chi Square results: Size of enterprise/ support in application of BEE

Chi-Square Tests			
	Value	Degrees of freedom	p-value (2-sided)
Pearson Chi-Square	0.5911	1.0000	0.4420
N of Valid Cases	66	0	0
0, i.e. 0%, of expected values are less than 1			
0, i.e. 0%, of expected values are less than 5			
The minimum expected value is: 9.470			

6.7 Relationship between the size of an enterprise and tourism incentives used

The researcher was also curious to determine if there is a relationship between the size of an enterprise and the utilization of tourism incentives by these enterprises.

H0: The size of an enterprise has no influence on the propensity to utilize tourism incentives.

H1: The size of an enterprise determines the propensity to utilize tourism incentives. The cross tabulation of this data is depicted in the table below.

Table 6.26 Cross tabulation: size of enterprise/ incentives used

Count		Turnover * tourism incentives used Cross tabulation		
		tourism incentives used		Total
		no	yes	
Turnover	smaller than R500 000	14	5	19
	over R500 000 to R1 million	5	6	11
	over R1million to R2,5 million	8	3	11
	over R2,5 million to R5million	9	1	10
	Over R5million to R10million	6	1	7
	Over R10million toR15million	1	0	1
	Over R15million to R20million	1	0	1
	Over R30million to R50million	2	1	3
	Over R80 million to R100million	1	1	2
Total		47	18	65

The table below depicts the results of the Chi-Square test with a 5% probability and the degrees of freedom determined as 8. The Chi-Square statistic for this data is 7,483 whilst the Chi-Square table value is 15,51 and therefore the null hypothesis can be accepted (H0: The size of an enterprise has no influence on the propensity to utilize tourism incentives).

Table 6.27 Chi Square results: size of enterprise/ incentives used

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.483 ^a	8	.486
N of Valid Cases	65		

a. 12 cells (66.7%) have expected count less than 5. The minimum expected count is .28.

However, the calculation resulted in 12 cells with an expected count of less than 5 whilst the minimum expected count is 0,28. The grouping of the responses into two categories based on the exemption threshold was also applied in the same manner as in section 6.6 above.

Table 6.28 Recoded cross tabulation: Size of enterprise/ incentives used

Count		Turnover * tourism incentives used Cross tabulation		
		tourism incentives used		Total
Turnover	smaller than or equal to R2,5 million	no	yes	
		over R2,5 million	27	14
Total		20	4	24
		47	18	65

The Chi Square calculation on this new set of data resulted in a value of 2,310 whilst the table value is reflected as 3,841 at a 5% probability and 1 degree of freedom (table 6.29). Based on this calculation the Null hypothesis is accepted.

Table 6.29 Chi Square results for recoded data: Size of enterprise/ incentives used.

Chi-Square Tests			
	Value	Degrees of freedom	p-value (2-sided)
Pearson Chi-Square	2.3100	1.0000	0.1285
N of Valid Cases	65	0	0
0, i.e. 0%, of expected values are less than 1			
0, i.e. 0%, of expected values are less than 5			
The minimum expected value is: 6.646			

6.8 Focus group results

The members of the focus group were in agreement with the findings of the research and highlighted the following issues:

- That tour operators do not distinguish between entrepreneurs and business owners as in the academic sense but rather refer to an entrepreneur as someone owning your own business.
- The fact that the UK was still the top tourist generating country came at no surprise as well as the improvement of the USA to the second biggest tourist generating country for South Africa.
- The fact that Germany has been relegated to third place in this ranking must not be underestimated as the Germans spend more money on their visits than the UK and USA. This can inter alia be ascribed to the big distribution channel members that are targeting affluent German clients to take up their offerings.
- Training must be job orientated and not training for the sake of training.
- The BEE transformation figures are what they expected. Although these figures were low, it was encouraging to see black entrants to the tour operating sub-sector. Although these figures are still low, the barriers to entry are the same for all South Africans and should see more black entrepreneurs take up the opportunities in the market.
- The indication by some respondents on "turnover invested in local communities" are challenged as it seems far too high if based on turnover. The fact that 5,9% and 2% of respondents indicated respectively an investment of 20% and 35% of their turnover in local communities, can be ascribed to different interpretations of the term "investment" and "local communities". Some might have referred only to community projects that they support, whilst others might have included their utilization of labour and products/services sourced from local communities as "investments" in these communities.
- The fact that 79% of respondents indicated zero percent of training budgets devoted to the training of PDI's, can be ascribed to their nature as small business and the tendency to do in-house training without a dedicated training budget.
- The challenge is to improve basic education as many of the youth holding a matric certificate do not have the basic skills to read, speak and write in English, and this hampers employment opportunities in tour operating. It is recommended that the quality of teachers be improved as well as the facilities for scholars.

- The figures on procurement from PDI's were encouraging as this shows a willingness of tour operators to support BEE in application although it is not easily achieved in terms of ownership, management by PDI's , equity in employment and staff training; mainly due to the small size of the enterprises.
- Government and private sector interventions should rather focus on apprenticeships than learnership programmes.
- Industry members underestimate their support of BEE companies as they do not know the intricate shareholding structures of many enterprises as well as the exclusion of the national flag carrier in their calculations.

6.9 Conclusion

The research revealed various issues to be considered by government and the tour operating sub-sector in their quest to grow the market and improve transformation. The findings of this research have led to recommendations which are discussed in Chapter Eight, Recommendations and Conclusion.

CHAPTER SEVEN

A GROWTH MODEL TO EXPAND BLACK ECONOMIC EMPOWERMENT

7.1 Introduction

Carland *et al.*, (1997) states that all nations are dependent upon people to generate wealth that will serve the common good of society. This can be achieved by sharing knowledge and to pursue entrepreneurial goals.

The Heads of Government in the Caribbean decided in 1985 to stimulate entrepreneurship in the service, agriculture and manufacturing sectors to develop a self-reliant region. The strengthening of management skills, technology and entrepreneurship were vital to achieve this goal of self-reliance. Government's role in this strategy included the following:

- Provide adequate infrastructure and supporting services
 - Undertake programmes to improve human capital
 - Ensure the adequate mobilisation and availability of venture and equity capital.
- (Neblett *et al.*, date unknown: 5)

The South African tourism industry is distinctive in linking tourism SMME development with the advancement of Black Economic Empowerment objectives. The support needs of the SMMEs in tourism is not homogeneous due to the differences expressed by the mix of growth-oriented tourism SMMEs, groups of lifestyle entrepreneurs, and a group of marginal or survivalist tourism entrepreneurs. Support interventions must acknowledge this mix and offer an array of support interventions targeting specific groups (Rogerson, 2005: 635).

The main constraints for established and new entrepreneurs in the tourism industry are insufficient marketing support from government, excessive regulations and red tape, lack of suitable human and physical infrastructure, and lack of knowledge on support programmes available to tourism SMMEs. New market entrants also indicated the

constraints of market saturation and the lack of financial assistance for expansion and improvements for their businesses (Rogerson, 2005: 634).

7.2 Origin-destination models

Models are simple reconstructions of reality that reduces the complexities that exist in the real world and describes the relationships of activities or factors that form part of a system (Ratcliffe, 1981: 267). In tourism the study of origin-destination models create useful insights into the behavior of tourists in the real world. These models are used to understand and explain distance decay and reciprocity in tourist behaviour.

Distance decay occurs when the volume of tourists decrease with an increase in distance from generating areas. This decrease is related to the increased consumption of resources such as time, money and effort.

Reciprocity refers to two-way traffic that exists between destinations and the fact that they act as origins and destinations between pairs of places. An area can act as a receiver or originator of tourists although the volumes of traffic may differ between the pairs (Keyser, 2002: 122).

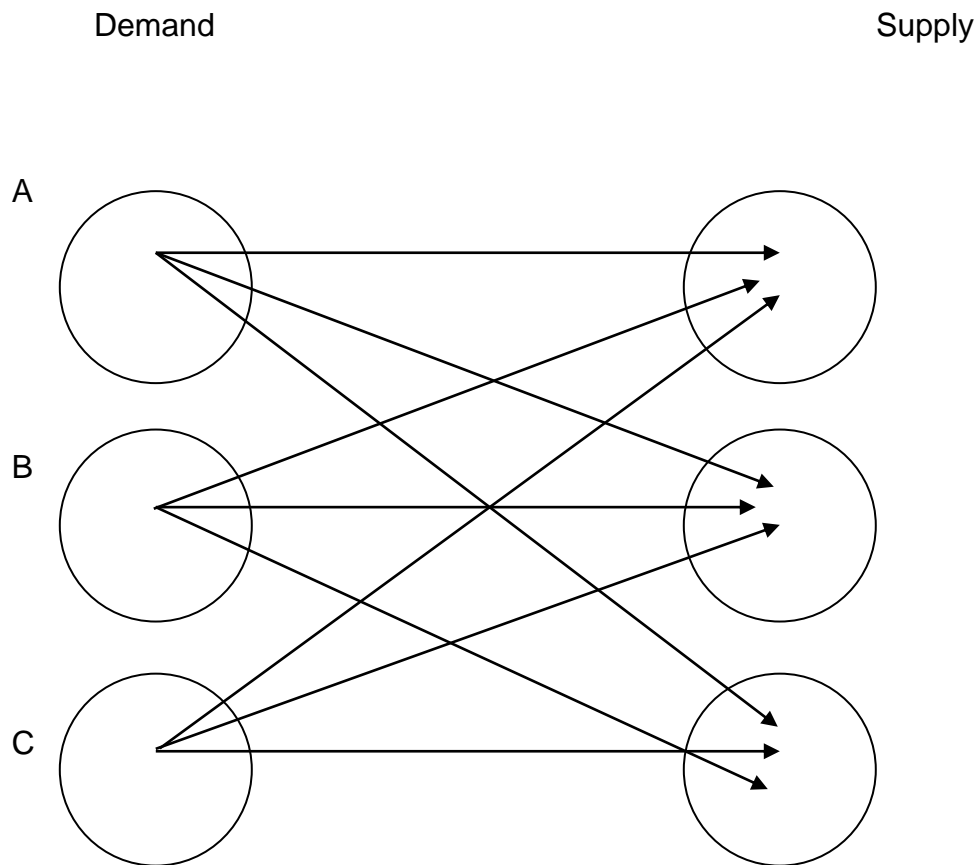
Thurot (1980) developed a model that indicated the flow of international and domestic tourists between different countries. This model refers to the satisfying of demand within a country and the fact that if the demand for tourism cannot be satisfied within a country, it would lead to international travel if that demand can be satisfied in another country.

Figure 7.1 depicts how the unsatisfied demand generated in country A will lead to international travel to countries B and C. At the same time demand in countries B and C that are not satisfied within their own borders, will lead to international travel to country A.

The challenge is to fulfill as much of this demand within the borders of South Africa and to attract unsatisfied demand elsewhere, to South Africa. In order to stimulate

entrepreneurship opportunities within South Africa, a development model must incorporate these demand and supply factors.

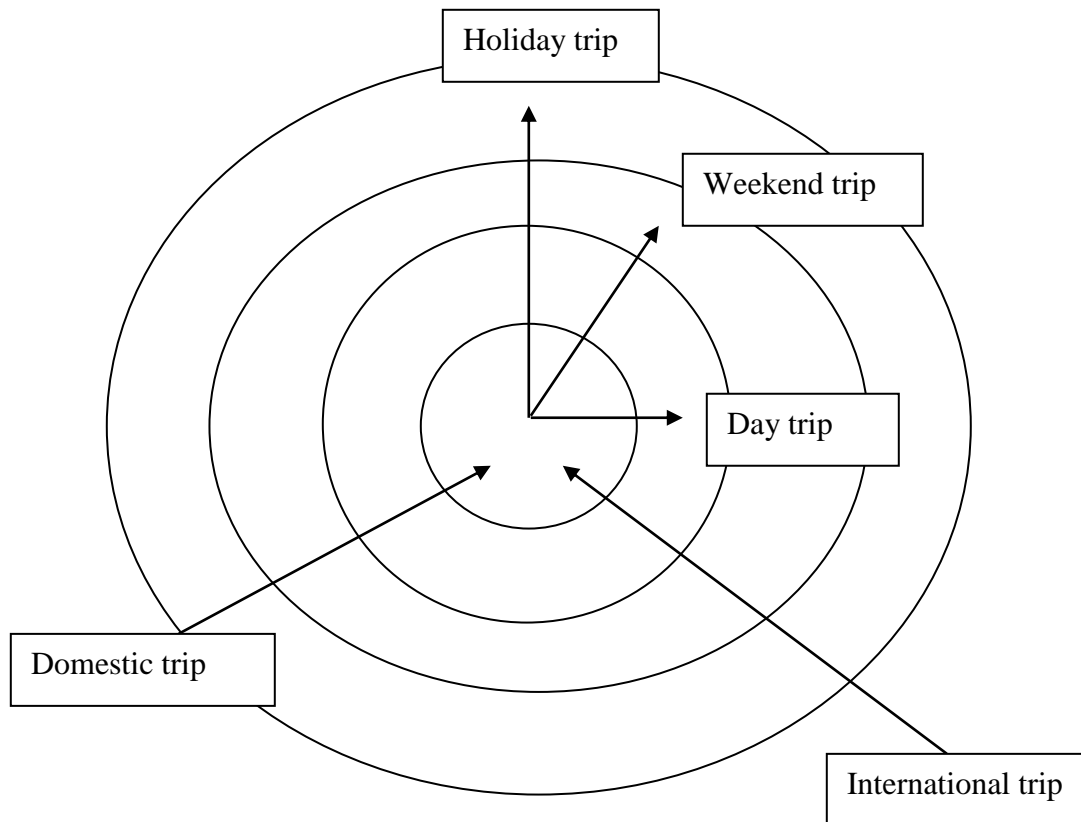
Figure 7.1 Origin – Destination model



Source: Keyser (2002: 123).

Pearce (1989) designed a model that described urban centers as sources of tourists and as domestic and international destinations. This model describes two opposite flows that identify city residents who flow out of the city as part of centrifugal forces, while domestic and international tourist flows towards these urban centers. Figure 7.2 depicts the centrifugal and centripetal forces of travel that form the basis of Pearce's model.

Figure 7.2 Pearce's adapted model



Source: Keyser (2002: 124).

7.3 Travel data models

The tourism industry consists of various kinds of businesses and is also known as the “travel & tourism” industry due to the important role of travel related companies in delivering tourism products and services. These travel businesses include travel agencies, airlines, car hire companies, etc. and have specific data requirements although they do have common data structure needs.(Silverston, 2001: 353).

These data needs are vital to the planning and setting-up of tourism businesses and potential entrepreneurs will need this data to ensure that tourism services are delivered according to demand. The travel businesses will be concerned with the following issues:

- Relationship development with each traveler
- Improving convenience of travel arrangements
- Ways to ensure pleasurable travel experiences
- Providing superior services in the total experience
- Which incentives will induce travelers to travel with this company
- Managing costs efficiently.

In order to answer these basic questions, the entrepreneur will have to have access to the following information:

- The people, organizations and interactions that make the industry work
- Travel needs and requirements of travelers
- The geographic location of your clients
- Relationships between different parties and how you can access them
- Information on geographical arrival and departure points
- The type of products and services that we want to offer as well as those offered by the opposition
- The types of agreements that exist between parties
- Pre-travel arrangements that need to be in place
- Information about the total travel experience as well as different service levels required
- External benefits associated with travel and travel loyalty programmes
- Accounting and human resource information.

7.4 General entrepreneurship measures

The Organisation for Economic Co-operation and Development states in their paper, Entrepreneurship and Local Economic Development (2003: 120) that governments can encourage entrepreneurship through a range of measures that include:

- Increase the flow of information relevant to starting, financing and managing entrepreneurial ventures
- Raise awareness of entrepreneurship
- Facilitate access to accommodation
- Improve skills
- Modify incentives for the private supply of fundamental business development services
- Promote collaborative behaviour amongst ventures that can lead to mutual benefits

Governments are faced with trade-offs between whom they design intervention packages for and how to select the target audience with the highest probability of success. The biggest employment creation will come from entrepreneurs who establish businesses that survive and grow. However, if these entrepreneurs are selected as the target audience, a lot of wastage could occur as they would have succeeded on their own accord without government intervention. In order to address social inequities and poverty, the unemployed could be selected as the target audience. This group would be likely to generate less employment opportunities and suffer from entry constraints.

Governments are advised to reduce or remove barriers, such as lack of a credit history, discrimination based on race, gender, disability, etc. and criminal records. These steps may facilitate the entry of persons from disadvantaged groups who have economically viable ventures but were prevented from entrepreneurial ventures due to these barriers (OECD, 2003: 120). A well designed performance monitoring system and the selection of the right persons and projects are crucial to minimize failures. Policy should have a balanced approach in supporting existing fast growth ventures as well as high quality start-ups. The lowest mortality rate is amongst existing fast growth ventures and therefore ensures the best return on public sector funding. Evaluating new start-ups must focus on removing entry barriers but also assessing the viability and sustainability of the new venture before public funding and assistance is considered.

The Directing Committee of the OECD's Local Economic and Employment Development (LEED) Programme endorsed the following policy recommendations(OECD, 2003: 123):

Strategy for national and local government

- Make enterprise support explicit
- Do not view the promotion of micro-enterprises as a solution to include large numbers of previously disadvantaged individuals in the economy
- Adopt a commercial approach to service provision
- Promote public awareness of entrepreneurship
- Provide proper support for micro-enterprises in the total package of enterprise support
- Identify and redress benefit traps that can discourage enterprise
- Facilitate access to training in order to improve the survival rate of existing enterprises
- Expect limited short-term employment creation from entrepreneurship promotion but examine measures to enhance local employment impacts

Strategy specific to local government

- Ensure affordable and flexible accommodation packages for enterprises
- Update regulations often and minimize the administrative burden on enterprises

Finance measures for national government level

- Introduce flexible loan guarantee schemes based on local area differences in terms of property prices
- Consider incentives for banks to support micro-finance initiatives
- Ensure effective enforcement of non-discrimination laws in bank lending
- Address the issue of a lack of banking facilities in depressed areas

Finance measures for local government

- Work with financial institutions to ease the access to finance for entrepreneurs
- Encourage equity investments and business support networks

The European Union has launched the Green Paper on Entrepreneurship in 2003 in an attempt to set a new agenda for Entrepreneurship by which to produce more

entrepreneurs and to get more businesses to grow. The Action Plan that is aimed at unlocking this potential focuses on five key strategic areas:

- Changing the way society looks at entrepreneurs
- Creating conditions to encourage more people to become entrepreneurs
- Allowing SMEs and entrepreneurs to play a full role in driving growth and enabling them to remain competitive
- Improving the accessibility of finance to SMEs and entrepreneurs
- Creating a more SME-friendly environment in terms of regulations and administration (Herrero-Rada, 2005: 100).

7.5 Tourism-specific entrepreneurship models

The life cycle model can be used in analyzing the different types of entrepreneurship that are prevalent in a destination. The life cycle stages can be demarcated as exploration, involvement, development, consolidation and stagnation stages. During the exploration stage the entrepreneurship style can be organic in nature and demand initiated. Feedback from role-players and tourists determine the direction of development. At a later stage such as the consolidation or stagnation stage, mass tourism could have degraded the local environment and revitalizing entrepreneurship occurs and deliberate strategies are deployed to restore and revitalize the destination (Russel & Folkner, 2004: 564).

Direct and indirect tourism policy measures are necessary to overcome market failures or the better functioning of markets (Nyberg, 2001: 56). These measures include:

- Guarantee a free market system
- Producing public goods that are to the benefit of tourism in general
- Government to fund externalities in an effort to stimulate growth through the multiplier effect.
- Correction of asymmetric information situations
- Tollerate monopolies and cartels as temporary phenomena of the free market system

- Protect the environment
- Facilitate basic education and training that will benefit the country
- Deregulate transport including Aviation and Rail policies
- Create funding mechanisms to stimulate tourism growth (Nyberg, 2001: 56).

In South Africa, the need for government intervention is far greater than in developed countries as major inequalities exist in ownership of land, personal wealth, participation in the economy, etc. According to Thomas (2003: 5) government intervention should include actions to address key-need areas of small enterprises. These include:

- Improved access to information and advice including assistance with business plans, the use of websites, understanding e-commerce and access to suitable mentors
- Improved access to markets that include open markets, preferential procurement, outsourcing, export facilitation and gender equality.
- Improved access to finance including micro- finance, bank systems, venture capital, and financial advice.
- Access to technology such as production technology, design techniques, safety mechanisms, quality control techniques and equipment technology.
- Access to training in basic entrepreneurial skills, small business management techniques, through sector vocational training and problem solving techniques.
- Streamlining of regulatory frameworks that will ensure flexibility of rules and regulations, reduce bottlenecks in procedures, stimulate self-help initiatives and adjust to the abilities of SMME operators.
- Develop SMME focused business infrastructure in designated areas, stimulate business incubators and provide adequate safety and security measures in these environments.
- Facilitate business networking through business chambers, support for business fairs and affordable participation as well as regular networking opportunities locally and abroad.
- Provide sector support at sector-, industry- and niche level.
- Creating a national, regional and local SMME supported policy environment that will encourage entrepreneurship through collaborative policies and initiatives.

Nieman, *et al.*, (2003: 11) concludes that a model for entrepreneurship consists of several external variables that influence the business environment in which entrepreneurship takes place and these include:

- Entrepreneurial orientation

This factor is responsible for entrepreneurial growth and development of businesses, regions, and countries. This orientation is shaped by culture, role models, education, work experience, personal orientation and support structures.

The culture to embrace entrepreneurs, to honour them and to destigmatise failure in entrepreneurial ventures are factors that integrate entrepreneurship into a society. In entrepreneurial societies ventures of this nature are seen as first choice careers for individuals and not as a last resort for unemployed people that rely on survivalist skills to cope. Studies in social behaviour by Hofstede highlight the differences and similarities between societies. Kanungo states that developing nations, especially in Sub-Saharan Africa are high on power distance and have strong believe in the hierarchy of authority. In tradition bound societies the power of authority and control are determined by kinship and age. This stifles the individuals ability to develop decision-making and business skills and diminish the selfbelieve needed for entrepreneurship. The pursuit of collective interests, prevalent in most African societies, has not promoted the spirit of independence and enterprising behaviour of the individual (Nieman, *et al.*,2003: 12).

Entrepreneur role models that are closely linked to the individual through family or local society, tends to shape entrepreneurial thinking of these individuals and they tend to start their own business or work in the family business. Education can also be a main contributor to entrepreneurial thinking and can teach learners to become employers rather than employees. Coupled to the formal learning process is the process of learning through experience and developing entrepreneurial thinking and ventures by gaining experience and skills by being an employee.

Personal orientation towards entrepreneurial traits such as risk taking, creativity, innovative thinking and pursuing opportunity will determine the inclination of individuals to become entrepreneurs.

- Supportive environment

This environment includes financial mobilization that will support funding and training support for existing and potential entrepreneurs, a regulatory environment that is entrepreneur friendly (Eg. excessive regulations and exploitive tax administration), training and development programmes, and the provision of physical infrastructure such as transport and telecommunication network (SMEDA, 2004: 11).

- Cooperative environment

Apart from the support of the general population and the legislative frameworks that determine legal business practices, there should be institutional support for entrepreneurs in terms of research institutions, business networks, tutors and expert advisors.

7.6 A holistic entrepreneurship strategy

SMEDA, the Small and Medium Enterprise Development Authority (Pakistan) (2004) emphasise the importance of having a long-term vision and holistic approach in implementing a successful entrepreneurship development model in a country. The result of such an approach would deliver a multiplier effect of job creation and result in lower poverty levels (SMEDA, 2004: 3)

The key components in their programme consist of:

Stage 1: Entrepreneurship Awareness & Orientation

Stage 2: Entrepreneurial Skills Training

Stage 3: Business Initiations/ Entry Strategies

Stage 4: Business Development Services & Institutions

Stage 5: Business Support Services & Institutions

Stage 6: Entrepreneurship Coordination Committee and Forums

Stage 7: Entrepreneurship Friendly Policy Regime

Stage 8: Human Resources Development

This is a wide-ranging strategy that needs to be implemented in phases in a few regions and then replicated in others. The strategy is a long-term plan of action that expect to generate visible effects in 10 to 15 years (SMEDA, 2004: 15).

7.7 SMME programmes in South Africa

Rogerson (2004: 765) investigated the impact of the South African governments' SMME programmes from 1994 to 2003 and found that the performance of these programmes, in terms of job creation and poverty alleviation, were poor. One of the main shortcomings of these interventions was the poor statistical records and the lack of data on geographical or spatial impacts. Where data sets were available, significant discrepancies occurred and this is evident in Table 7.1 where Ntsika and Stats SA depict the number of SMMEs per Province.

Manning (1996: 63) challenges the conventional wisdom that SMME promotion will equate to employment creation and sites the SMMEs, in the manufacturing industry in South Africa, as performing substantially lower in employment creation than in international contexts. These studies by Rogerson and Manning show that the majority of South African SMMEs are micro- and survivalist enterprises with no sign of enterprise growth.

The most dynamic of the SMME groupings, is the Medium size enterprises and they create the most new employment opportunities. They are the smallest in number of the SMME groupings and therefore it will be misleading to take the indicator of net growth in SMMEs as an index of the success of governments SMME programmes. A more appropriate indicator, such as the number of SMMEs that had shown signs of survival and long-term growth, as indexed by the expansion of their number of employees, could be developed (Rogerson, 2004: 770).

Table 7.1 Provincial profile of SMMEs.

	NTSIKA	STATS SA
Gauteng	414 166	616 000
KwaZulu-Natal	198 749	580 000
Western Cape	144 594	111 000
Eastern Cape	94 523	209 000
North West	56 117	175 000
Mpumalanga	53 636	181 000
Limpopo	49 986	265 000
Free State	49 835	129 000
Northern Cape	18 791	17 000

Source: Rogerson (2004: 769).

The 1995 White Paper on Small Business created the specific framework for SMME development. Government expected the SMMEs to deliver three key reconstruction objectives namely employment promotion, redistribution of wealth and improvement in global competitiveness. The policy instruments that were utilized ranged from technology support, to literacy and numeracy training, and access to basic information. These objectives were justified but were not prioritized in a hierarchy that would enable resource allocation that could yield the best returns. The White Paper aimed to achieve broad-based legitimacy for the new SMME strategy, address the disempowerment of black business in the Apartheid era and to create new institutions that could support, coordinate and monitor the process (Rogerson, 2004: 767).

The SMME model was based on international best practice and simultaneously had to enable decentralised access to information, training, markets, finance and technology, improved business infrastructure, and strengthening of business networks. Critical to this model was the establishment of decentralized local support service centers (LSCs) which was transformed as local business service centers (LBSCs). These centers were

linked to local economic development and provided business information, general business management advice, and networking to other service providers. These services were aimed at existing and start-up SMMEs. Additional service providers that were not accredited LBSCs were funded by Ntsika to increase the extent of services offered. Tender advice centers were established to provide services that included advice on tendering and tender procedures, as well as the guidelines and procedures for public procurement contracts. Other institutional elements included Manufacturing Advice Centres (MACs), Local Industrial Parks (LIPs), small business incubation and linked sectoral cluster programmes (Rogerson, 2004: 768).

Rogerson (2004: 770) concludes that there are three main reasons why the contribution by SMMEs to employment growth remains low:

- The majority of these enterprises are not functionally integrated into modern production structures and do not compliment the services of bigger businesses but rather compete in the same product markets.
- The majority of enterprises lack the dynamism to expand beyond the one-person stage that they find themselves in.
- The growth of dynamic SMMEs in terms of profit and turnover does not translate to increased employment generation because they have adopted a strategy of jobless growth.

Kesper as cited in Rogerson and Visser (2002: 164) found that the few dynamic SMMEs that are internationally competitive have the lowest propensity to create employment for the bulk of the South African labour force that are unskilled. For this reason Kesper concludes that the growth in SMME employment is largely generated by micro-enterprises and new start-ups instead of the expansion of existing SMMEs.

Policy intervention and support at local level can stimulate the informal sector and alleviate the plight of the survivalist entrepreneurs. Measures such as the establishments of formal markets, appropriate land-use policies, and improved infrastructure can contribute to the well-being of these entrepreneurs.

However, the reoccurring reason common to all is the attempt by government to achieve three different development objectives (employment promotion, redistribution of wealth, and improvement in international competitiveness) at the same time

7.8 A model based on strategic entrepreneurship

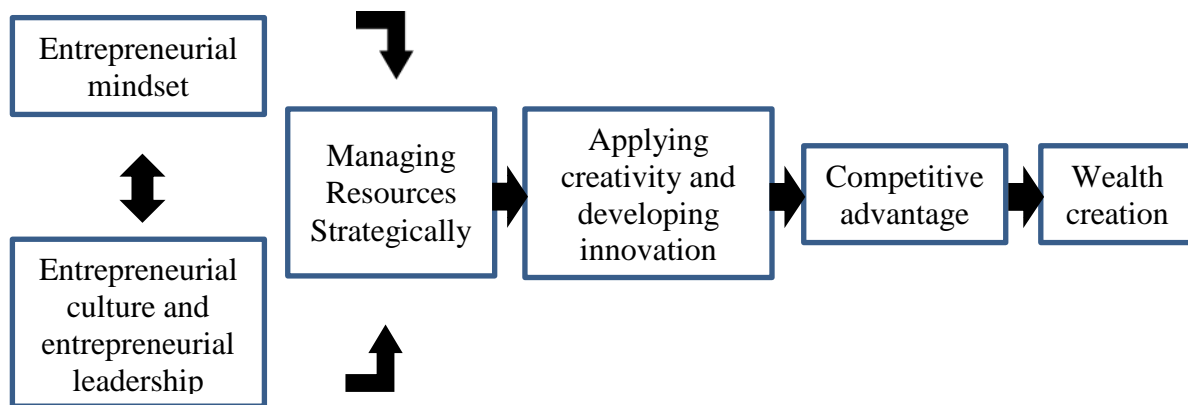
Ireland, Hill & Sirmon (2003:963) state that entrepreneurship and strategic management are concerned with growth and wealth creation. Entrepreneurship is also viewed increasingly as a stimulus to wealth creation in emerging, developing and developed countries whilst strategic management is concerned with the understanding of the differences between various enterprises. They also concur that wealth creation and firm growth are interrelated. Enterprises that generate effective growth can benefit from economies of scale and increased market power that in turn creates more resources to the enterprise and improve their competitive advantage.

Ireland, et al (2003: 967) proposes a model for strategic entrepreneurship that consists of four main components. This model is depicted in Figure 7.3: A model of strategic entrepreneurship.

The first is that of the entrepreneurial mindset that can sense, act and mobilise resources to adapt to uncertain conditions. This mindset consists of the recognition of entrepreneurial opportunities, entrepreneurial alertness, real option logic that creates a portfolio of entrepreneurial opportunities that allocate their resources in a way that balances risks and returns generated by these options, and an entrepreneurial framework that sets clear goals and timelines with expected outcomes.

Secondly, the creation of an entrepreneurial culture and leadership is crucial for the operation of a strategic entrepreneurship model. The third component refers to the strategic management of the resources of the organization. The fourth component reflects the application of creativity and developing innovation.

Figure 7.3 A model of strategic entrepreneurship



Source: Ireland, *et al.*, (2003: 967).

Stam (2008: 8) explains the relationship between entrepreneurship and economic growth as the result of the collective efforts of small and big business to drive innovation and in so doing create economic growth. The mechanisms that create this growth were identified as knowledge spillovers, decentralization, experimentation and competition.

Knowledge spillovers result from big research projects or institutions such as universities that open the door for smaller focused enterprises to utilize all aspects of the research to derive economic benefits. Strong research universities can contribute to local growth if they form part of economic clusters that encourage development and entrepreneurship. Decentralisation is evident in highly developed economies and the decision making powers are closer to the operational area to ensure swift action and reaction to market forces and opportunities. Experimentation is normally conducted on small scale to minimize costs and risks. Economic growth implies that change should take place and new enterprises are normally the entities that adopt these changes. However, due to the inherent risks in experimentation, many of these new, small enterprises perish due to failed experiments. It also happens that those initially small firms that prosper due to these experiments, then lay the foundation for totally new industries to develop and expand economic growth significantly. Lastly, competition creates the opportunity for diversification and although new enterprises adopt new opportunities from the outset, they may also trigger existing enterprises to diversify and do business in a new way.

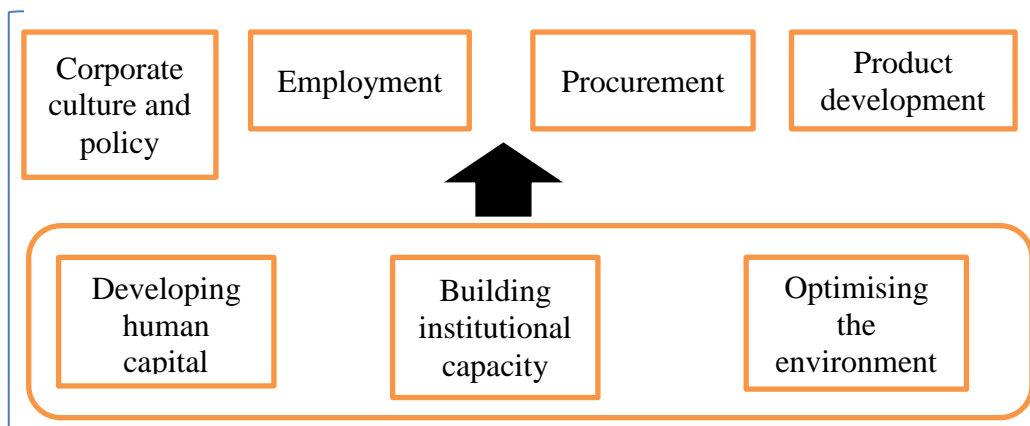
Stam (2008: 9) also indicates that growth and national income is unambiguously related to high levels of new enterprise formation and high-growth start-ups and that recent research has shown that high levels of new, growing firms are strongly related with economic growth.

7.9 Developing inclusive business models

Ashley, Brine, Lehr and Wilde (2007: 16) explain how business strategies can be developed to expand economic opportunity and increase the benefits to local communities whilst enhancing customer satisfaction. They propose that these strategies are deployed in an inclusive business model with local employment practices and linkages between tourism enterprises and other local entities.

Figure 7.4 depicts an inclusive business model that rely on a sound corporate culture, local employment practices, local procurement plans, and tourism product development that reflect local attributes. This model is also underpinned by three strategies that consist of the development of human capital, building institutional capacity and optimizing the environment in which the model can operate.

Figure 7.4 An inclusive business model



Source: Ashley, *et al.*,(2007: 16).

Ashley, et al (2007: 23) conclude that research on these inclusive models have highlighted some important lessons for the tourism sector. These lessons include the following:

- Shift mindset.
Create a mindset in the organisation that seeks expanding business opportunities along the value chain.
- Focus on employment and training.
Where possible employ local people and develop human resources through training, improved customer satisfaction and employee motivation.
- Improve procurement practises.
Support local product and service providers, especially for small businesses that might need credit, initial mentoring services and technology transfers.
- Link tourists to local cultural products and experiences.
Promote and market local artists, cultural events and unique experiences to the tourists.
- Utilise distribution patterns of tourism-related economic opportunities.
Consider ways to include smaller communities and marginalised groups in the distribution and delivery of tourism services and products.
- Create an enabling environment that helps expanding economic opportunity.
Consider property right issues, accreditation of suppliers and policies conducive to local tourism development.
- Maximise impact through collaboration.
Build multi-stakeholder partnerships to enhance efficiency and develop local capacity.

- Share best practices.
Build on best practices and adapt models to local conditions.

There are also several lessons learnt for governments and these include the following:

- Encourage inclusive business models through regulations and policies.
Policies and regulations should provide incentives that encourage business models that include economic opportunities for disadvantaged communities.
- Build public-private partnerships to improve training.
Utilise dedicated institutions to expand the training offering and improve the skills base. As the demand for these skills grow, so will the training opportunities increase and become self-sustainable over time.
- Partner with the National Tourism Sector to develop inclusive business models.
Governments can help reduce transaction costs through grant payments in order to encourage inclusive business models.
- Establish a conducive environment for small and micro entrepreneurs. In order to encourage cooperation between small and large enterprises, supply side constraints must be addressed. Support must be provided in terms of capital, training, information provision, improved quality and reliability of production.
- Engage at all government levels.
Local government plays a critical role in encouraging partnerships between local enterprises, different government departments and entrepreneurs throughout the economy to stimulate inclusive business models.

7.10 A proposed model for business growth and BEE expansion

From the above literature it is proposed that a model be designed and implemented that consists of the following components:

A needs driven model that includes infrastructure development conducive to economic and business growth, improvements in the development of human capital, the provision of adequate venture and equity capital, modified incentives that are demanded by entrepreneurs, and encouragement of collaboration between big and small business.

A model that is flexible enough to offer support for businesses in different development or life cycle stages whilst being cognizant of the potential of rural and urban markets.

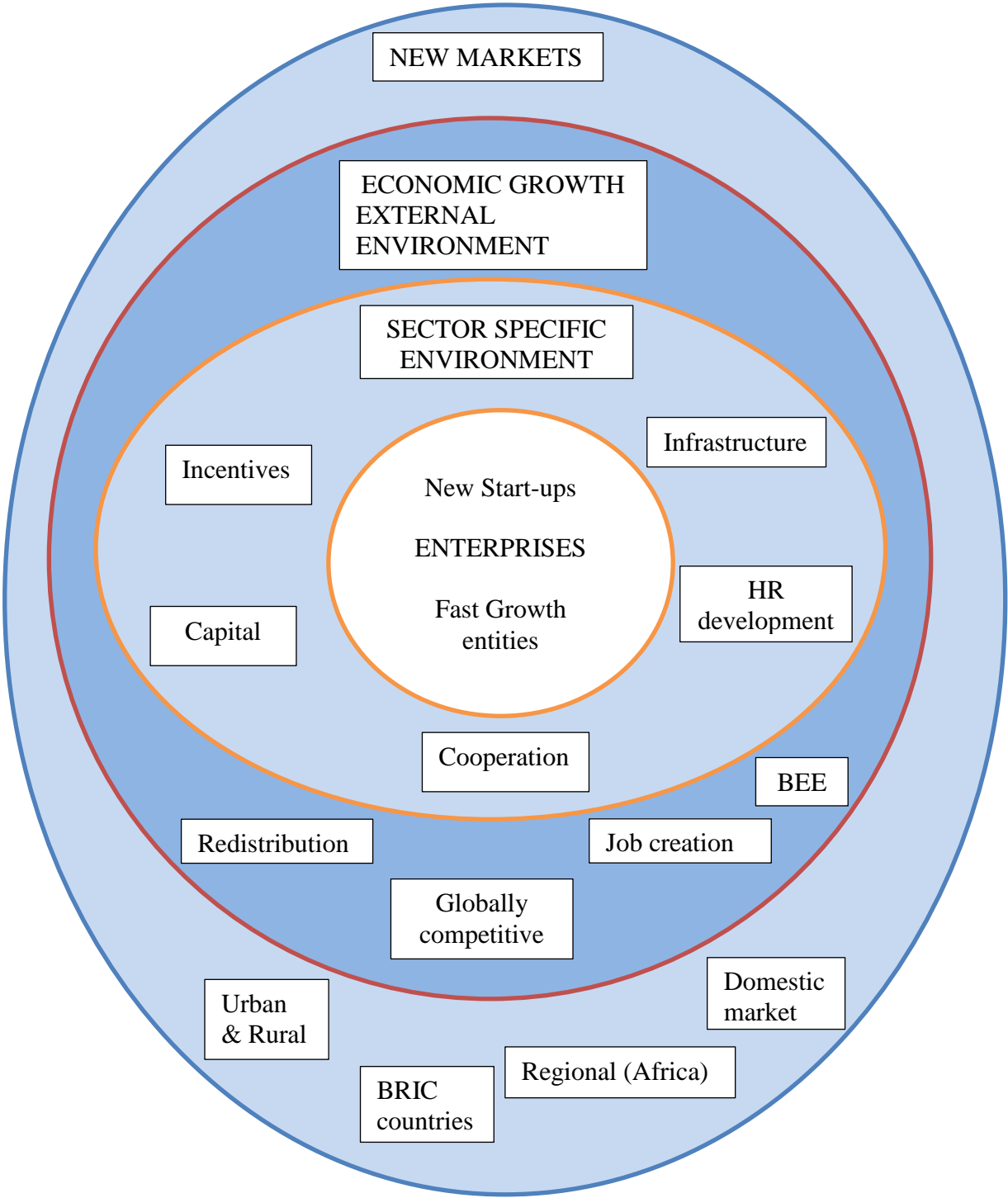
In order to ensure economic growth, saturated markets need to be avoided and regional tourism potential exploited to the benefit of the South African tourism industry. This model must incorporate specific requirements such as BEE objectives (employment creation, redistribution of wealth and global competitiveness) whilst limiting the risks of failure by targeting fast growth enterprises for support. However, due to the low competitiveness of South African smme's in the international markets, the desired growth in job opportunities will mainly emanate from new start-ups instead of expanding existing businesses. The model will have to have a focussed approach with dynamic fast growth enterprises and new start-ups as key target audiences.

The creation of an environment conducive to entrepreneurial and business growth needs to support this model and will be closely linked to the growth in national income that creates opportunities for new business formation as well as stimuli for high growth enterprises.

In conclusion a suitable model for economic growth and enhanced BEE should emanate from a holistic approach that consists of support initiatives that encourages an inclusive business model for growth that incorporates local service providers and utilise local labour in presenting an authentic tourism experience.

The proposed business growth model in Figure 7.5 consists of four key focus areas that include specific target enterprises, a sector specific environment, economic growth and the external environment, and a focus on new markets for future growth.

Figure 7.5 A proposed business growth model



The specific target enterprises include the fast growth entities that develop rapidly and ignite new industries or massive job creation opportunities. These opportunities can be utilized to stimulate local employment and economic growth as well as BEE objectives. In South Africa's case the bulk of new job creation opportunities emanated from new start-up enterprises since the global competitiveness for new fast growth companies is limited.

On the sector specific front government should design sector specific incentives that are needed by these enterprises to expand BEE opportunities and create growth. The provision of adequate venture and equity capital is much needed to stimulate the expansion of existing businesses as well as the creation of new start-ups. In order for these businesses to grow, suitable interventions need to be aimed at improving the human resource capital of South Africa with government supporting private sector initiatives to this extent. Suitable infrastructure needs to be put in place for fast growth companies to develop in specific sectors whilst cooperation between large and small enterprises needs to be encouraged to ensure a transfer of knowledge and skills to local communities.

The need for economic growth as part of the external environment proved to be crucial in the successes of Malaysia to transform their economy and society to be inclusive of the local inhabitants. This growth needs to be evident in tourism in order for BEE opportunities to be expanded to previously disadvantaged individuals and communities. The growth of the black middle class gives rise to new tourism demand and opportunities and enables government to redistribute wealth amongst all its people and to stimulate job creation. The dependence of local economies on international trade necessitates the development of globally competitive enterprises and support structures should be in place to ensure this objective.

Lastly, the focus for tourism growth needs to incorporate the growth from the BRIC countries as well as the different tourism demands from rural and urban populations. A new growth model must include a tourism focus on the regional (Africa) and domestic markets to ensure sustainable growth in the long run.

Chapter Eight

Recommendations and Conclusion

8.1 Introduction

The issue of Black Economic Empowerment in the tourism industry is addressed through legislation applicable to all industries as well as tourism specific interventions such as the announcement of the Tourism BEE Charter and Scorecard (2005). The publishing of the Codes of BEE for tourism heralded another attempt from government to expedite the process of integration and equity in the tourism industry.

The tour operator plays an important role in the experiences that tourists have, as they are responsible for selecting individual products and service to constitute the total tourism product on offer. To this extent, black economic empowerment can contribute to the diversity of the existing product range and enhance the experiences tourists can enjoy in South Africa.

In Chapter 6 the researcher explained the findings of this study in an attempt to address the research problem: Poor BEE levels in the tour operating sub-sector of South Africa. The primary objectives of the study were to determine the state of BEE in the tour operating sub-sector and to recommend interventions that would enhance the opportunities for expediting BEE. The secondary objectives consisted of determining the level of support for BEE amongst tour operators, ascertaining if there were causal relationships between the characteristics of tour operators and the support for BEE, and the support interventions needed to stimulate business growth and opportunities for increasing BEE.

The research problem was echoed in the 2009 BEE survey of KPMG (2009:1) by stating that 15 years into the democracy of South Africa, transformation (BEE) remains illusive for the majority black population. Research on BEE in tourism is dated and the baseline study conducted by the Tourism BEE Charter Council in 2006 (results presented in 2007) did not provide much insight into tour operating as a sub sector but rather

grouped these findings under the Travel Distribution System that included tour wholesalers, travel agents, tourist guides, car rental companies and coach operators. This study was followed up by a national study commissioned in 2010 by the Tourism Ministry and the Tourism Business Council of South Africa on the state of transformation in the tourism industry (The Citizen, 2010). The results of this study were to be made public by February 2011 but are still not available.

8.2 Recommendations

The 2002 Tourism Business Council found inter alia that there was a shortage of qualitative data on BEE, the costs in measuring and verifying BEE were high, and a lack of funding and support for new small businesses in the tourism sector existed. The baseline study, commissioned by the Tourism BEE Charter Council in 2006 posed the question whether the current scorecard with its seven elements is applicable to SMME's and if a SMME's focused scorecard should be developed. This study also concludes that the size of enterprises, as measured by annual turnover, is a pivotal parameter to track BEE progress.

8.2.1 The state of BEE in tour operating

Only 18,3% of respondents had a verified BEE status although 32,4% had a BEE level based on self-assessment. If this outcome is read with the findings of the 2002 TBCSA report and the Baseline survey of 2007, then the challenges are:

- to standardise the assessment (criteria, methodology, etc.)
- to make it affordable for all businesses and
- to introduce a less complicated system than the existing system.

Tour operators, with 36, 1% of respondents indicating that they employ one or less employees on a full time basis, will find it difficult to comply with all seven pillars of the scorecard, unless they are black owned and managed. A small tour operating enterprise that consists of one white employee or owner will not be able to score points

for PDI ownership, black management, or training of PDI employees. In terms of ownership 14,3% of respondents indicated that they are 100% black owned whilst 77,6% indicated that they have no PDIs as owners of the enterprise.

Although 72,1% of respondents indicated that they support BEE in principle, this support decreased to 61,8% when asked if they support BEE by applying it in their businesses.

8.2.2 Interventions sought by tour operators

Tour operators have indicated that 73,1% of them have not used tourism incentives in the past but indicated that they require the following:

- incentives for marketing and advertising
- assistance with capital investments in their businesses
- start-up finance for new entrepreneurs
- capital provision for expansion and IT requirements, and
- assistance with training and skills development initiatives.

The survey indicated that entrepreneurial ventures that were significantly different or unique account for less than 1% (0,7%) of tour operators. This highlights the competitive nature of the business as tourism attractions and products are seldom available on an exclusive basis. In many cases the tourism attractions are public goods, such as floral kingdoms, scenic beauty, natural features, etc. and any operator can include them in his product offering. The entrepreneurial spirit of South Africans need to be supported and specific start-up funding should be made available for these ventures that have potential of exploiting new opportunities and creating unique, fast growth enterprises (eg. The first shark cage dive operation, first bungee jumping outfit, etc.).

8.2.3 Levels of support for BEE

Although in section 8.2.1 the difference in support for BEE in principle and in application is mentioned (72,1% and 61,8% respectively) the levels of implementation in the general

operation of businesses remain low. The TBCSA report of 2002 and the Baseline report of 2007 indicate that quantifying the level of transformation is difficult due to poor data, a lack of clearly defined indicators that can be measured, the pool of skilled black people are small, and that black people in general do not view tourism as a desirable field to work in.

The high cost of measuring and verifying the BEE status is also mentioned in this report and enterprises are just not aware of the BEE status of suppliers, clients and investors. During telephone enquiries from tour operators, it became clear that they did not know how to incorporate the using of SAA as their air lift supplier, in the BEE scoring process. The same uncertainty applied to other international and large corporate companies in terms of their BEE status being unknown to the tour operators. The following recommendations are made in this regard:

- that a central database of tourism enterprises be compiled
- that registering your tourism enterprise becomes a compulsory measure, and
- that the verified BEE status of all tourism enterprises be included in this national database.

The researcher is pleased that the recommendation of a central database for tourism enterprises is now considered by the National Minister for Tourism and included in the new Tourism Bill that was published in 2011.

8.2.4 Causal relationships

The Baseline report of 2007 indicated that the size of an enterprise (annual turnover) is a good indicator to measure performance. The acceptance of the null hypothesis in section 8.6.1 indicates that there is no causal relationship between the size of the enterprise and the support for BEE in principle as well as for the application of BEE. The researcher recommends the following:

- re-instate the exclusion threshold of R5 million turnover per annum, and

- investigate the affordability of assessment/verification and determine an exclusion threshold based on the outcomes of this research.

With regards to the size of an enterprise and the propensity to use tourism incentives, the null hypothesis was accepted in section 6.6.2. With this in mind, it is recommended that:

- tourism incentives are made available to all levels of enterprises in an attempt to stimulate growth, create employment opportunities and to increase revenue.

8.2.5 Training interventions requested by respondents

Respondents were clear on the provision of appropriate training and skills development in the tourism industry. In order for staff to remain actively employed by tour operators respondents indicated part time studies as their preferred form of tuition. It is recommended that diplomas and short courses are compiled consisting of the following three focus areas:

- Product knowledge
- Business acumen
- Communication skills

These courses should be made available through distance tuition or residential tuition and offer students flexibility to remain employed and to study at the same time.

8.3 Concluding remarks and further study

The exemption threshold is insignificant in getting more enterprises to apply BEE in their operations. The inability of small, white owned/operated enterprises, consisting of one or two employees, to comply with BEE targets on ownership, management, employment equity and skills development needs to be addressed. It is recommended that:

- further study investigate the formulation of a special scorecard for smme's, and

- that this scorecard consists of variables that smme's can control in terms of BEE targets.

The net effect of transformation can only benefit South Africa if total employment is improved. The transferring of employment and ownership between racial groups in South Africa does not improve the net effect of unemployment and therefor it is recommended that:

- greater emphasis be placed on economic growth, and
- that the spreading of benefits to the broader population becomes a priority.

With the emerging black middle class, opportunities are developing for increased domestic travel that include traditional travel needs as well as those specific to the black middle class. These include culture specific events, facilities, travel patterns, etc. The best rate of success for business development is shown by investing in existing businesses with proven businesses models and track records. These businesses should be encouraged to participate and expand the tourism offerings that will expedite BEE.

Entrepreneurial ventures do not have proven business models and are therefore finding it difficult to find start-up funding. It is recommended that:

- Special government interventions should be designed to support these ventures that have the potential for fast growth and expansive job creation.

Examples of such entrepreneurial ventures in the past include the first bungee jumping outfit, shark cage diving, etc. In order to sustain future growth, development initiatives should include:

- a domestic tourism programme that encourages national and regional travel with appropriate products and services at affordable prices.

- government investment in world class education and training at all levels of tourism to ensure a future labour force that can contribute to the delivery of exceptional tourism offerings
- a comprehensive tourism business study needs to be conducted on all the sub-sectors of the tourism sector to comprehend the complexity and diversity of the tourism sector.

An understanding of the ways in which business are conducted in each sub-sector will allow for focused interventions and more successful job creation and BEE results. The departure point for these studies should be the business functioning of sub-sectors. Thereafter political objectives can be sought by focused interventions that will grow the overall business of tourism and thus creating opportunity for black people to excel in tourism.

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Annexure 1

Code of Ethics (UN-WTO)

PRINCIPLES

Article 1

**Tourism's contribution to mutual understanding and respect
Between peoples and societies**

1. The understanding and promotion of the ethical values common to humanity, with an attitude of tolerance and respect for the diversity of religious, philosophical and moral beliefs, are both the foundation and the consequence of responsible tourism.
2. tourism activities should be conducted in harmony with the attributes and traditions of the host regions and countries and in respect for their laws, practices and customs;
3. the host communities should acquaint themselves with and respect the tourist who visit them and;
4. it is the task of the public authorities to provide protection for tourists and visitors and their belongings;
5. when travelling, tourists and visitors should not commit any criminal act or any act considered criminal by the laws of the country visited and abstain from any conduct felt to be offensive or injurious by the local populations;
6. tourists and visitors must be aware of the health and security risks inherent in any travel outside their usual environment and behave in such a way as to minimize those risks;

Article 2

Tourism as a vehicle for individual and collective fulfillment

1. Tourism should be planned and practiced as a privileged means of individual and collective fulfillment;

2. tourism activities should respect the equality of men and women; they should promote human rights and, more particularly, the individual rights of the most vulnerable groups, notably children, the elderly, the handicapped, ethnic minorities and indigenous peoples;
3. the exploitation of others in any form, conflicts with the fundamental aims of tourism and it should be strictly prohibited and penalized;
4. travel for purposes of religion, health, education and cultural or linguistic exchanges are particularly beneficial forms of tourism, which deserve encouragement;
5. the introduction into curricula of education about the value of tourist exchanges, should be encouraged;

Article 3

Tourism, a factor of sustainable development

1. All the actors in tourism development should safeguard the natural environment with a view to achieving sound, continuous and sustainable economic growth geared to satisfying equitably the needs and aspirations of present and future generations;
2. all forms of tourism development that are conducive to saving rare and precious resources in particular water and energy, as well as reducing waste production, should be given priority;
3. the staggering in time and space of tourists and visitor flows, and a more even distribution of holidays should be sought so as to reduce the pressure of tourism activity on the environment;
4. tourism infrastructure should be designed and tourism activities programmed in such a way as to protect ecosystems and biodiversity and to preserve endangered species of wildlife;
5. nature tourism and ecotourism are recognized as being particularly conducive to enriching and enhancing the standing of tourism, provided they respect natural

environments, associate local populations in their development and are in keeping with the carrying capacity of the sites;

Article 4

Tourism, a user of the cultural heritage of mankind and
a contributor to its enhancement

1. Tourism resources belong to the common heritage of mankind; the communities in whose territories they are situated have particular rights and obligations to them;
2. tourism policies and activities should be conducted with respect for the artistic, archaeological and cultural heritage, which they should protect and pass on to future generations;
3. financial resources derived from visits to cultural sited and monuments should, at least in part, be used for the upkeep, safeguard, development and embellishment of this heritage;
4. tourism activity should be planned in such a way as to allow traditional cultural products, crafts and folklore to survive and flourish, rather than causing them to degenerate and become standardized;

Article 5

Tourism, a beneficial activity for host countries and communities

1. Local populations should be associated with tourism activities and share equitably in the economic, social and cultural benefits they generate, and particularly in the creation of direct and indirect jobs resulting from them;
2. tourism policies should be applies in such a way as to help to raise the standard of living of the populations of the regions visited;
3. special attention should be paid to the specific problems of coastal areas and island territories and to vulnerable rural or medium mountain regions;

4. tourism professionals, particularly investors, in associated with the national, regional and local public authorities, should carry out studies of the impact of their development projects on the environment and natural surroundings;

Article 6

Obligations of actors in tourism development

1. Tourism professions have an obligation to provide tourists with objective and honest information on their places of destination and on the conditions of travel, hospitality and stays;
2. tourism professionals, insofar as it depends on them, should show concern, in co-operation with the public authorities, for the security and safety, accident prevention, health protection and food safety of those who seek their services;
3. tourism professionals, so far as this depends on them, should contribute to the cultural and spiritual fulfillment of tourists and allow them, during their travels, to practise their religions;
4. the public authorities of the generating States and the host countries, in co-operation with the professionals concerned and their associations, should ensure that the necessary mechanisms are in place for the repatriation of tourists in the event of the bankruptcy of the enterprise that organized their travel;
 - a. governments have the right - and the duty – especially in a crisis, to inform their nationals of the difficult circumstances, or even the dangers they may encounter during their travels abroad;
5. the press, and particularly the specialized travel press and the other media, should issue honest and balanced information on events and situations that could influence the flow of tourists;

Article 7
Right to tourism

1. The prospect of direct and personal access to the discovery and enjoyment of the planet's resources constitutes a right equally open to all the world's inhabitants;
2. the universal right to tourism must be regarded as the corollary of the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay;
3. social tourism, and in particular associative tourism, which facilitates widespread access to leisure, travel and holidays, should be encouraged by the public authorities and developed;
4. family, youth, student and senior tourism and tourism for people with disabilities, should be facilitated.

Article 8
Liberty of tourist movement

1. Tourists and visitors should benefit, in compliance with international law and national legislation, from the liberty to move within their countries and from one State to another;
2. tourists and visitors should have access to all available forms of communication, internal or external access to local administrative, level and health services; they should be free to contact the consular representatives of their countries in compliance with the diplomatic conventions in force;
3. tourists and visitors should benefit from the same rights as the citizens of the country visited concerning the confidentiality of the personal data;
4. administrative procedures relating to border crossings to facilitate to the maximum freedom of travel and widespread access to international tourism;

5. So far as the economic situation of the countries from which they come permits, travellers should have access to allowances of convertible currencies needed for their travels.

Article 9

Rights of the workers and entrepreneurs in the tourism industry

1. The fundamental rights of salaried and self-employed workers in the tourism industry and related activities, should be guaranteed ;
2. salaried and self-employed workers in the tourism industry and related activities have the right and the duty to acquire appropriate initial and continuous training;
3. any natural or legal person, provided he, she or it has the necessary abilities and skills, should be entitled to develop a professional activity in the field of tourism under existing national laws; entrepreneurs and investors – especially in the area of small and medium-sized enterprises – should be entitled to free access to the tourism sector with a minimum of legal or administrative restrictions;
4. exchanges of experience offered to executives and workers, whether salaried or not, from different countries, contributes to foster the development of the world tourism industry;
5. multinational enterprises of the tourism industry should not exploit the dominant positions they sometimes occupy; in exchange for their freedom to invest and trade which should be fully recognized, they should involve themselves in local development;
6. partnership and the establishment of balanced relations between enterprises of generating and receiving countries contribute to the sustainable development of tourism and an equitable distribution of the benefits of its growth.

Article 10

Implementation of the principles of the Global Code of Ethics for Tourism

1. The public and private actors in tourism development should co-operate in the implementation of these principles and monitor their effective application;
2. the actors in tourism development should recognize the role of international institutions;
3. the same actors should demonstrate their intention to refer any disputes concerning the application or interpretation of the Global Code of Ethics for Tourism for conciliation to an impartial third body known as the "World Committee on Tourism Ethics".

Annexure 2

STAKEHOLDER SUBMISSION TEMPLATE



**STAKEHOLDER SUBMISSION TO THE TOURISM BEE SCORECARD DEVELOPMENT
PROCESS**

September 2004



TOURISM BEE SCORECARD

Stakeholder Submission

September 2004

Thank you for completing this survey. This survey will be used for the compilation of the preliminary BEE Tourism scorecard to be presented to all stakeholders during provincial Road shows in October 2004.

The **deadline** for submission of responses to this Questionnaire is

27 September 2004

It must be completed and faxed or e-mailed back to your Association Representative, or alternatively to bee@tbcsa.org.za or cwu@empowerdex.com

TOURISM BEE SCORECARD

Stakeholder Submission

Name of respondent: _____

Association: _____

Representing which sub-sector:

Hospitality and Related Services

Accommodation Services

Travel Distribution Services

Organizational Status:

Is your organization or its holding company a JSE listed entity: Yes/No

Is your organization an SME (i.e. Turnover less than R 20 million): Yes/No

Is your organization or its holding company a multinational corporation: Yes/No

Does your company have more than 50 percent black ownership: Yes/No

Date: _____



PLEASE REFER TO THE SUBMISSION TEMPLATE TO FILL IN YOUR RESPONSES TO THE STATEMENTS DISCUSSED BELOW.

For each factor, indicated in column A, please answer column A – H, before moving onto the next factor.

1. BEE Factors

Which BEE factor is most important and will have the most impact in terms of transforming the Tourism sector?

Please rank the seven elements of the scorecard, indicated in column A, in order of importance. (1- most important to 7- least important)

Please rank them in the respective cells of the seven elements as listed in **column A**.

2. Tourism Weightings, Targets, Key drivers, Challenges and Other Comments

Column B indicates the current weightings of the BEE balanced scorecard as developed by DTI. The weightings suggested are to be used as guidelines by the sector and may be adjusted to suit the needs of the sector.

Please consider the following questions, to help you make a decision on the weightings of each factor:

OWNERSHIP

Ownership is defined as having the twin elements of economic interest and control (voting rights).

Ownership recognizes and measures the entitlement of black people to the voting rights and economic interest associated with the equity holding. Voting rights afford the rights to determine strategic and operational policy of an enterprise, while economic interests result in the flow of dividend and capital gains to a shareholder.

Ownership Weighting for the Tourism Scorecard

The DTI Scorecard weights Ownership at 20% of 100%, i.e. 20% of the Scorecard.

1. Do you think that Ownership in the Tourism sector should carry a weighting of 20%, a weighting higher than 20% or a weighting lower than 20%? (Please insert your suggestions in Column C under Ownership)

2. If you believe that the ownership weighting for the tourism sector should be higher (lower) than the DTI weighting, please provide your justification in Columns F,G and H.

Ownership Targets in the Tourism Scorecard

1. What do you think would be appropriate, and attainable, targets for the Tourism industry in terms of Ownership in 2014?

- Direct ownership refers to the level of black shareholders holding both economic benefits and voting rights. (Please insert your input on the target in Column E1)

- Indirect ownership target refers to the level of black shareholders holding only economic benefits but do not directly exercise their voting rights, i.e. employee equity schemes, pension funds and other collective investment schemes where the beneficiaries are black. (Column E2)

Please also highlight the relevance of each of these indicators for the promotion of transformation in the tourism industry (1 = very important, 10 = not important)

Key Drivers and Challenges

1. What do you think will be the key drivers and challenges that will contribute or present an obstacle to the set targets? If you believe that the weighting for ownership should be higher (lower) than the DTI scorecard, please indicate your view on the key drivers (challenges) that can accelerate (delay) the transformation of ownership in the sector.

(Please comment in **Column F**, under Ownership)

(Kindly indicate, in **Column G**, the challenges that you feel will be encountered in working towards the accomplishment of the targets)

(In **Column H**, kindly give in any further comments that you may have regarding the indicators that will be used to measure the achievement of the Ownership factor.

MANAGEMENT

Management control refers to the effective control over economic activities and resources. This entails the power to determine policies and the direction of economic activities and resources.

Management control is exercised through the governing bodies of an enterprise and is normally measured at two levels:

- a) Board of directors (equivalent structure), where the determination of strategies, policies and direction of the economic activities and resources is made.
- b) Executive management or highest executive body after the board of directors or equivalent structure, which is entrusted with the day to day management of the entity's economic activities and resources

The common objective is to encourage genuine participation by black South Africans in day-to-day management and high-level decision-making. The BEE Act has also introduced the possibility of measurement of BEE compliance at the level of management to differentiate between male and female black persons.

Weighting for Management

The DTI weights Management at 10% of 100% i.e. 10% of the Scorecard.

1. Do you think that Management in the Tourism sector should carry a weighting of 10%, a weighting higher than 10% or a weighting lower than 10%? (Please indicate your input in Column C)

2. If you believe that the weighting for the tourism sector should be higher (lower) than the DTI weighting, please provide your justification in Columns F,G and H.

Management Targets

What do you think would be appropriate, and attainable, targets for the Tourism industry in terms of Management, over the next ten year period? Different targets are requested for different governing bodies (the Board of Directors and Executive Management) as well as separately for black women representation. These Include:

What is the ideal percentage of the **black people** on the *Board of Directors* that the industry can achieve in 2014? Please fill in a number in **Column E3**.

What is the ideal representation of **black women** on the *Board of Directors* that the industry can achieve in 2014? Please fill in a number in **Column E4**.

At Executive Representation level, Executive management is the formal or informal structure that determines the day-to-day strategic management:

In an ideal scenario in 2014, what is percentage of **black people** in *Executive Management* do you think? Please fill in a number in **Column E5**.

What percentage of *Executive Management* should be black women? Please fill in a number in **Column E6**.

Please also indicate the relevance of each of these indicators for the promotion of transformation in the tourism industry (1 = very important, 10 = not important)

Key Drivers and Challenges

1. What do you think will be the key drivers and challenges that will contribute or present an obstacle to the set management targets? If you believe that the weighting for management should be higher (lower) than the 10% weighting on the DTI scorecard, please indicate your view on the key drivers (challenges) that can accelerate (delay) the transformation of management and control in the sector.

(Please comment in **Column F**, under Management)

(Kindly indicate, in **Column G**, the challenges that you feel will be encountered in working towards the accomplishment the different targets set under management)

(In **Column H**, kindly give in any further comments that you may have regarding the indicators that will be used to measure the achievement of the management factor.

EMPLOYMENT EQUITY

Entities are required to comply with the spirit and the provisions of the Employment Equity Act to bring about an equitable representation of black persons in all occupational and skills levels in the organisation over a period of time.

The underlying principle behind employment equity is to foster the active involvement of black people in operational, professional and executive decision-making processes in their employing entities.

Employment Equity Weighting

The DTI weights Employment Equity at 10% of 100% i.e. 10% of the Scorecard.

1. Do you think that Employment Equity in the Tourism sector should carry a weighting of 10%, a weighting higher than 10% or a weighting lower than 10%?

Please write down an Employment Equity weighting in **Column C**, under Employment Equity.

Employment Equity Targets

The following targets are set for 2014. Please indicate that as an industry, what are the appropriate, and attainable, targets for the Tourism industry in terms of Employment Equity, over the next ten year period?

What percentage of senior management should be black people? Please fill in a number in **Column E7**.

What percentage of senior management should be black women? Please fill in a number in **Column E8**.

What percentage of professionals and middle management should constitute black people? Please fill in a number in **Column E9**.

What percentage of professionals and middle management should constitute black women? Please fill in a number in **Column E10**.

What percentage of junior and skilled employees should be black people? Please fill in a number in **Column E11**.

What percentage of junior and skilled employees should be black women? Please fill in a number in **Column E12**.

What will be the representation of black people of all employees in the industry? Please fill in a number in **Column E13**.

What will be the representation of black women of all employees in the industry? Please fill in a number in **Column E13**.

Please also indicate the relevance of each of these indicators for the promotion of transformation in the tourism industry (1 = very important, 10 = not important)

Key Drivers and Challenges

1. What do you think will be the key drivers and challenges that will contribute or present an obstacle to the set targets? If you believe that the weighting for employment equity

should be higher (lower) than the DTI scorecard, please indicate your view on the key drivers (challenges) that can accelerate (delay) the transformation of employment equity in the sector.

(Please comment in **Column F**, under Employment equity)

(Kindly indicate, in **Column G**, the challenges that you feel will be encountered in working towards the accomplishment of the targets)

(In **Column H**, kindly give in any further comments that you may have regarding the indicators that will be used to measure the achievement of the Employment equity factor.

SKILLS DEVELOPMENT

Skills development refers to the development of core competencies of black people to facilitate their interaction in the mainstream of the economy. It is imperative that there should be focus on core and technical skills that would enable black people to participate in the wider economy in a meaningful manner. The Strategy and the proposed scorecard use skills development expenditure as a percentage of the total payroll as the indicator of skills development contribution for the purposes of the Scorecard.

Skills Development Weighting

The DTI weights Skills Development at 20% of 100% i.e. 20% of the Scorecard.

1. Do you think that Skills and Development in the Tourism sector should carry a weighting of 20%, a weighting higher than 20%, if you believe that skills development is more important than the suggestion under the scorecard, or a weighting lower than 20%?

2. If you believe that the weighting for the tourism sector should be higher (lower) than the DTI weighting, please provide your justification in Columns F,G and H.

Skills Development Targets

What do you think would be appropriate, and attainable, targets for the Tourism industry in terms of Skills Development, over the next ten year period? These include:

What percentage of Payroll should be spent on Skills Development? Please fill in a number in **Column E15**.

What percentage of Skills development spend should be spent on black employees? Please fill in a number in **Column E16**.

What percentage of Total Employees should be Learnerships? Please fill in a number in **Column E17**.

What percentage of Total learners should be black learners? Please fill in a number in **Column E18**.

Please also indicate the relevance of each of these indicators for the promotion of transformation in the tourism industry (1 = very important, 10 = not important)

Key Drivers and Challenges

1. What do you think will be the key drivers and challenges that will contribute or present an obstacle to the set targets? If you believe that the weighting for skills development should be higher (lower) than the DTI scorecard, please indicate your view on the key drivers (challenges) that can accelerate (delay) the transformation of skills development in the sector.

(Please comment in **Column F**, under skills development)

(Kindly indicate, in **Column G**, the challenges that you feel will be encountered in working towards the accomplishment of the targets)

(In **Column H**, kindly give in any further comments that you may have regarding the indicators that will be used to measure the achievement of the skills development factor).

PREFERENTIAL PROCUREMENT

Preferential procurement is defined as the percentage of total procurement that is sourced from suppliers that are BEE compliant. The compliance will be measured in terms of the specific industry scorecards or in terms of the generic DTI scorecard.

Preferential Procurement Weighting

The DTI weights Preferential procurement at 20% of 100% i.e. 20% of the Scorecard.

1. The DTI has identified preferential procurement as one of the key factors on the broad-based scorecard, by allocating 20% of the points (similar to skills development and ownership). Do you think that Skills and Development in the Tourism sector should carry a weighting of 20% or a weighting higher than 20%?

Please indicate your view on the Preferential procurement weighting in **Column C**, under Preferential procurement.

2. If you believe that the weighting for the tourism sector should be higher (lower) than the DTI weighting, please provide your justification in Columns F,G and H.

Preferential Procurement Targets

What do you think would be appropriate, and attainable, targets for the Tourism industry in terms of Preferential procurement, over the next ten year period?

Should the company be rewarded for developing and implementing a Preferential procurement plan? Please state Yes or No in **Column E19**.

What should the percentage spend on broad-based BEE contributors (broad-based BEE contributors include those who meet the minimum criteria as per specific industry charter or industry scorecards) as a total of procurement spend be? Please fill in a number in **Column E20**.

Please note that in setting the procurement targets for the purpose of this survey, the following considerations apply:

- 1. All procurement from State owned entities will be excluded from BEE procurement and from Total procurement (until the status of such entity in terms of BEE are clarified by the DTI)*
- 2. Supplier identification will be based on broad-based scorecard as per the DTI Code of Good Practice or industry charters rather than on pure ownership measures*

For Travel distribution companies only: What percentage of facilitated procurement spend should be spent on black companies? Please fill in a number in **Column E21**. Facilitated procurement includes procurement on behalf of clients where the travel distribution company has coercive but not direct control.

Key Drivers and Challenges

1. What do you think will be the key drivers and challenges that will contribute or present an obstacle to the set targets? If you believe that the weighting for preferential procurement should be higher (lower) than the DTI scorecard, please indicate your view on the key drivers (challenges) that can accelerate (delay) the transformation of preferential procurement in the sector.

(Please comment in **Column F**, under preferential procurement)

(Kindly indicate, in **Column G**, the challenges that you feel will be encountered in working towards the accomplishment of the targets)

(In **Column H**, kindly give in any further comments that you may have regarding the indicators that will be used to measure the achievement of the preferential procurement factor).

ENTERPRISE DEVELOPMENT, SOCIAL DEVELOPMENT and INDUSTRY SPECIFIC FACTORS

Enterprise Development

For the purpose of this survey, enterprise development is defined in terms of the total investment or support by a company in entities which are BEE compliant but which do not operate in the tourism industry. The enterprise development element aims at assisting and accelerating the development of the operational and financial capacity of entrepreneurial enterprises that contribute towards broad-based BEE.

The primary beneficiaries of enterprise development are the small and medium enterprises owned and controlled by black people. The measures range from direct financial assistance to non-monetary support provided to entrepreneurial enterprises

Corporate Social Investment

Corporate Social Investment refers to both monetary and non-monetary investment and support in community, poverty alleviation, health, education and other social project, which do not have commercial motive (as oppose to enterprise development and support for conservation and community tourism projects).

Support for Conservation and Community Tourism

This differs from CSI and Enterprise development as an industry specific indicator, it refers to a company's contribution to conservation and community tourism, where the investments in and support provided to industry-specific conservation and community projects, which will result in the expansion of tourism product base.

Benefits to these projects include business skills and technology transfer, creation of business linkage and opportunities, as well as the provision of funding and management support to project which will result in the development or improvement of existing tourism product.

- | |
|---|
| <ol style="list-style-type: none">1. Please indicate your suggestions on the weightings of each of these three factors in Column C. |
|---|

Please write down a Corporate Social development and Industry Specific factor in **Column C**, under Corporate Social development and Industry Specific factors.

Targets for Enterprise Development, CSI and Support for Conservation and Community Tourism

1. What do you think would be appropriate, and attainable, targets for the Tourism industry in terms of Enterprise Development, Corporate Social development and Support for Conservation and Community Projects be over the next ten year?

The measurement basis for these contributions can be expressed in terms of a percentage of after-tax profit or as a percentage of total management time.

2. If you believe that the weighting for the tourism sector should be higher (lower) than the DTI weighting, please provide your justification in Columns F,G and H.

Annexure 3

**SUBMISSION TO NATIONAL MINISTER FOR ENVIRONMENTAL AFFAIRS AND
TOURISM**

BY TC VIVIAN

PROPOSED BEE SCORECARD



COMMENTS ON THE BEE SCORECARD FOR TOURISM 20/03/2005

Point 3. The legacy, second paragraph: refers to tourism associations that do not reflect society.

These associations represent their **members** and ALL these associations are open to South Africans to join. Get black people to join these associations to reflect **PARTICIPATION** in the industry. On the same score the Black Taxi Associations does not reflect the demographics of South Africa, but they represent their members. So please do not expect associations to eradicate the legacy of apartheid but encourage their mission to be accessible to all.

Point 4. Sustainability, first paragraph: refers to identifying strategic opportunities for **OUR** enterprises and for **OUR** industry. This seems to me that we are back to the **THEY** and **US** scenario of the past and does not encourage the unification of the industry. Please explain what **OUR** means in this regard.

Paragraph 3 refers to : empowerment and transformation makes good business sense as it would introduce innovation into the sector.

By **opening** another 100 travel agencies that is black owned, you will not achieve above mentioned objective. The **economic empowerment of black people** in South Africa will lead to an expansive domestic demand and this will grow new markets with new demands and business opportunities. At this point in time ANY new entrant into the supply side of the tourism industry is free to do so. The market is open to entry for black and white people. Why is it not happening? One of the reasons is the saturation of supply with lots of spare capacity in the industry. Be careful of not forcing black people into an industry where margins are low and markets saturated. Rather grow the market and then encourage black participation in this new growth.

Point 5. Scorecard objectives, bullet 5: refers to establishing of targets in the industry.

This is a very good way to ensure that BEE does not remain an idea but are implemented with desired results. However, as a united South Africa, we should afford this opportunity to all South Africans, especially the youth. Some young white students have expressed their struggle to find work in the South African tourism industry as new positions are dedicated to affirmative action. In order to create an income they resort to starting a small business, but here they are marginalized buy government because they are white. In order to create accessibility and equity for all our youth, we need to encourage targets for ALL tourism companies; including 100% black or white companies. Targets must apply to all companies if we adhere to the principle of equity.

Point 9.3. Unique Principles underpinning the Tourism BEE Charter and Scorecard, paragraph 2: refers to the favoring of human factors in the first five years ending December 2009.

We can learn from the Malaysian experience of applying Affirmative Action in a very successful way. They focused on Human Resource Development and over a 10 to 15 year period transformed their economy to be inclusive of the Bumiputra(local population).

In order to assist the small business sector in tourism, the scorecard for tourism should not have included ownership, management and employment equity for small business. The reason for this is that a big component of small businesses consists of owner operated or family-run businesses. These enterprises cannot afford to take on co-owners or appoint managers since they are fulfilling these tasks themselves. They will score zero for 48% of the scorecard with a 100% commitment to BEE in factors they can control. For big business this is not such a big challenge as they do employ managers and has boards that consist of directors or owners. Big business can also issue public shares and encourage black participation in this manner. Therefore the Scorecard should have been designed with big business and small business as two different target markets. If not, then how will small black business be able to adhere to the equity principle and employ white participants at these three levels?

Point 9.5 The Broad-based BEE Framework, bullet 6: refers to investment in enterprises that are owned or managed by black people.

In order to be inclusive and with youth development in mind this bullet should read as follows: investment in; enterprises that are owned or managed by black people and all new start-ups.

This will ensure keen participation from all participants in the tourism industry whilst addressing BEE in an equitable manner.

Point 17. Industry specific factors, bullet 2: refers to the TOMSA levy that should be used to further the interests of black people in all aspects of tourism.

This statement creates an impression that the TOMSA levy will exclusively benefit black people. It would be better to indicate a percentage of the levy, eg. 80% to be used for BEE. This will mean that small white businesses will not be excluded but a significant bigger portion will be available to BEE. Keep in mind that all businesses create jobs and we need to encourage further job creation in all walks of life.

We thank you for the opportunity to comment on this document.

Kind regards

TC Vivian

Executive Director

Annexure 4
Tour operator questionnaire 2010/11



**RESEARCH INTO THE NEEDS AND CHARACTERISTICS OF TOUR OPERATORS
IN SOUTH AFRICA**

Your willingness to act as a respondent to this survey is appreciated. There is no right or wrong answers to questions. Only your honest opinion is needed. The researcher undertakes not to reveal any information that may lead to the identification of any respondent or business enterprise.

The objectives of this research are the following:

- To determine the incentives needed to grow your business
- To improve the training of tour operators
- To evaluate the status of Black Economic Empowerment in this sector
- To identify entrepreneurship as a mechanism for growth

Please utilise this questionnaire as an opportunity to inform the researcher of your personal experiences and recommend suitable measures to improve tour operating in South Africa.

Thank you for your time and co-operation in completing this survey. Should you require any further information, please contact:

Theuns Vivian

Tel 021 4839270

Technology

Mobile 084 8000 748

e-mail : viviant@iafrica.com

or

Prof. Andre Slabbert

Cape Peninsula University of

Tel 021 4603112

e-mail : slabberta@cput.ac.za

How to complete the questionnaire

Place an **X** in the box next to the answer that you select. Where there is an open space for your response, please **type or write** your answer to the question asked.

Example:

Gender:

Male	<input type="checkbox"/>
Female	<input checked="" type="checkbox"/>

How many fulltime and part time employees are employed in this business?

Full time: 5
Part time: 10

How to return the questionnaire:

- E-mail to sender after completion and saving as a Word document **or**
- Fax to T C Vivian (021) 483 9014 **or**
- Mail to T C Vivian, 44 Poussion street, Loevenstein, 7530

Mark here

↓
x

Office
use

1 What form of business do you operate?

Close Corporation	
Company	
Partnership	
Sole Proprietary	
Other: (Specify)	

2 How many years has the business been in existence?

< 1 year	
1 – 2 years	
3 – 5 years	
6 – 10years	
> 10 years	

3 What is the BEE status of your business?

Self-assessed level:	
Verified level:	
Unknown:	

4 In which province is this business located?
(if more than one location, state the head office location.)

Gauteng	
Western Cape	
Kwazulu Natal	
Mpumalanga	
Limpopo	
North West	
Eastern Cape	
Free State	
Northern Cape	

5 How many full-time and part-time employees are employed in this business?

Full-time:	
Part-time:	

9 Name the unique features of your product/service if compared to mainstream competitors?

Unique features:

Explain briefly:

--

10 Have you ever made use of tourism-dedicated incentives?

No	
Yes	

--

10.1 If **Yes**, name the tourism-dedicated incentives briefly.

1		
2		
3		

10.2 If you used any other business incentives, name these incentives briefly.

1		
2		
3		

11 What kind of incentives do you require for the following situations?

Situation	Incentive needed	
Expanding your business		
Incorporating new products		
Applying Black Economic Empowerment		
Starting an entrepreneurial venture (unique and of a fast growth nature)		

- 16 List and rank the key skills of a tour operator, in order from most important (no.1) to less important (no.5).

Key Skills	
1.	
2.	
3.	
4.	
5.	

- 17 Which training courses would your business make use of to empower your employees?

Training Course	
General Management	
Financial Management	
Languages Specify:	
Law	
Marketing	
Project Management	
Contracting	

Training Course	
Event Management	
Tourist Guiding	
Creative Thinking	
Diversity Management	
Reservation systems	
e-Business	
Other:(specify)	

- 18 What kind of training do you support for Tour Operators?

Formal Training	
Degrees	
Diplomas	
Certificates	

Non formal Training	
Learnerships	
Short courses	
Job shadowing	

- 19 Which format of tuition do you prefer for employee training?

Residential	
Full time	
Part time	

Distance education	
Full time	
Part time	

--

- 20 General comments/recommendations:

--

***The researcher would like to maintain contact with you and kindly request your contact details.
However, if you would like to remain anonymous you can skip the following section.***

Name of person that completed the questionnaire:

Name of business:

International telephone number:

Email address:

Date of completion of the questionnaire (year/month/day) :

THANK YOU FOR PARTICIPATING IN THIS RESEARCH PROJECT.

YOUR PROFESSIONAL INPUT IS HIGHLY VALUED.

Annexure 5 Industry support

Living Cape Town. Loving Cape Town.



**CAPE TOWN
TOURISM**

www.capetown.travel

01 September 2010

TO WHOM IT MAY CONCERN

We welcome the research: Tourism Entrepreneurship with specific reference to Black Economic Empowerment in the Tour Operating sub-sector of South Africa proposed by Mr TC Vivian. The outcomes of this study can have a major impact in transforming the tourism industry in South Africa.

We approve that Mr Vivian contact tour operators through Cape Town Tourism that are members of our organisation and wish him well with the proposed research project.

Kind regards

Mariette du Toit-Helmbold
Chief Executive Officer
Cape Town Tourism

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Annexure 6 Focus group endorsement



RESEARCH INTO THE NEEDS AND CHARACTERISTICS OF TOUR OPERATORS IN SOUTH AFRICA

Your willingness to act as a respondent to this survey is appreciated. There is no right or wrong answers to questions. Only your honest opinion is needed. The researcher undertakes not to reveal any information that may lead to the identification of any respondent or business enterprise.

The objectives of this research are the following:

- To determine the incentives needed to grow your business
- To improve the training of tour operators
- To evaluate the status of Black Economic Empowerment in this sector
- To identify entrepreneurship as a mechanism for growth

Please utilise this questionnaire as an opportunity to inform the researcher of your personal experiences and recommend suitable measures to improve tour operating in South Africa.

Thank you for your time and co-operation in completing this survey. Should you require any further information, please contact:

Theuns Vivian
Tel 021 4839270
Mobile 084 8000 748
e-mail : viviant@iafrica.com

or

Prof. Andre Slabbert
Cape Peninsula University of Technology
Tel 021 4603112
e-mail : slabberta@cput.ac.za

How to complete the questionnaire

Place an **X** in the box next to the answer that you select. Where there is an open space for your response, please **type or write** your answer to the question asked.

Example:
Gender:

Male	<input type="checkbox"/>
Female	<input checked="" type="checkbox"/>

How many fulltime and part time employees are employed in this business?

Full time: 5
Part time: 10

How to return the questionnaire:

- E-mail to sender after completion and saving as a Word document **or**
- Fax to T C Vivian (021) 483 9014 **or**
- Mail to T C Vivian, 44 Poussion street, Loevenstein, 7530

Mark here ↓

Office use

1 What form of business do you operate?

Close Corporation	72
Company	15
Partnership	
Sole Proprietary	
Other: (Specify)	

2 How many years has the business been in existence?

< 1 year	
1 – 2 years	
3 – 5 years	25
6 – 10years	36
> 10 years	33

3 What is the BEE status of your business?

Self-assessed level:	32
Verified level:	16
Unknown:	48

4 In which province is this business located?
(if more than one location, state the head office location.)

Gauteng	
Western Cape	
Kwazulu Natal	
Mpumalanga	
Limpopo	
North West	
Eastern Cape	
Free State	
Northern Cape	

5 How many full-time and part-time employees are employed in this business?

Full-time:0-1 33,3%; 2-27,8
Part-time:0-1 63,4%; 3-12,7

6 In order to classify your business according to size, select a gross annual turnover category that best describes your business.

Below – R 500 000	30,4	Over R 20 million – R 30 million	
Over R 500 000 – R 1 million	15,9	Over R 30 million – R 50 million	5,8
Over R 1 million – R2,5 million	15,9	Over R 50 million – R80million	
Over R2,5 million – R 5 million	15,9	Over R 80 million – R100 million	2,9
Over R 5 million – R 10 million	10,1	Over R100 million – R200 million	
Over R10 million – R15 million		Over R200 million – R500 million	
Over R 15 million – R20 million		Over R500 million	

7 As what kind of tour operator would you classify this business?

Inbound	
Outbound	
Local	
Other (Specify)	

8 Indicate which are your main tourist source countries (origin of tourists) and rank your answers in order of importance with 1 indicating the most important country whilst the highest number indicates the least important country.

Source Country		Source Country	
United Kingdom	1	Zambia	
USA	2	Mozambique	
Germany	3	Namibia	
France		Nigeria	
Netherlands		Egypt	
Belgium		Kenya	
Zimbabwe		India	
Botswana		China	
Other(name):		Other:	
Other:		Other:	

9 Name the unique features of your product/service if compared to mainstream competitors?

Unique features:

Explain briefly: Tailor made, personal service, flexible

10 Have you ever made use of tourism-dedicated incentives?

No	73
Yes	27

10.1 If **Yes**, name the tourism-dedicated incentives briefly.

1 DTI vehicle grant
2 ITMAS
3 TEP

10.2 If you used any other business incentives, name these incentives briefly.

1
2
3

11 What kind of incentives do you require for the following situations?

1) Capital expansion funds, 2) international marketing for small CC, 3) Training subsidies

Situation	Incentive needed
Expanding your business	
Incorporating new products	
Applying Black Economic Empowerment	
Starting an entrepreneurial venture (unique and of a fast growth nature)	

12 To what extent do you support the Government's Black Economic Empowerment Policy in principle?

Fully support	22
Partly support	50
Do not support	28

13 To what extent do you **apply** Black Economic Empowerment in your business?

Fully apply	16
Partly apply	46
Do not apply	38

14 How many Previously Disadvantaged Individuals(PDI's) did you employ in 2008, 2009, and in 2010?

2008	
Full-time	
2008	
Part-time	
2009	
Full-time	
2009	
Part time	
2010	
Full-time	
2010	
Part time	

15 Please indicate the following percentages concerning your business.

Situation	%
Percentage of your turnover generated by doing business with PDI enterprises	0
Percentage of your clients who are Black	0
Percentage of your management staff that are PDI's	0
Percentage of ownership of the business, by PDI's	0
Percentage of your turn over invested in local community projects	0
Percentage of your total procurement that are awarded to PDI entities	0
Percentage of your product offerings that consist of PDI's products/services	0
Percentage of your annual training budget devoted to BBBEE	0
Percentage of your staff that are PDI's	0

- 16 List and rank the key skills of a tour operator, in order from most important (no.1) to less important (no.5).

Key Skills	
1.	Communication
2.	Product knowledge
3.	Client knowledge
4.	Marketing
5.	Service delivery

- 17 Which training courses would your business make use of to empower your employees?

Training Course	
General Management	30
Financial Management	29
Languages Specify:English	73
Law	1
Marketing	43
Project Management	19
Contracting	1

Training Course	
Event Management	22
Tourist Guiding	55
Creative Thinking	10
Diversity Management	34
Reservation systems	23
e-Business	38
Other:(specify)	

- 18 What kind of training do you support for Tour Operators?

Formal Training	
Degrees	11
Diplomas	43
Certificates	32

Non formal Training	
Learnerships	41
Short courses	51
Job shadowing	36

- 19 Which format of tuition do you prefer for employee training?

Residential	
Full time	
Part time	70

Distance education	
Full time	
Part time	78

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- 20 General comments/recommendations:

*The researcher would like to maintain contact with you and kindly request your contact details.
However, if you would like to remain anonymous you can skip the following section.*

Name of person that completed the questionnaire:

Name of business:

International telephone number:

Email address:

Date of completion of the questionnaire (year/month/day) :

THANK YOU FOR PARTICIPATING IN THIS RESEARCH PROJECT.

YOUR PROFESSIONAL INPUT IS HIGHLY VALUED.

Summary of findings:

Approximately 372 tour operators contacted with a response from 73 operators.

The bulk of tour operators surveyed are operating Close Corporations.

The respondents are mostly established businesses with 25% existing for 3-5 years, 36% of them doing business for 6-10 years and 33% longer than 10 years.

In terms of BEE status only 16% have a verified BEE status by an external entity.

More than 90% of respondents are based in the Western Cape and Gauteng.

In terms of **full time employees**, 33% are employing 1 or less employees and 28% employ 2 people.

A total of 63% of respondents employ 1 or less **part time employees**, 8,5% employ 2 people and 12,7% employ 3 people on a part time basis.

In terms of turnover 62% of respondents have a turnover of less than R2,5 million per annum (with 30% generating a turnover of R500 000 or less, per annum. A total of 5,8% have a turnover bigger than R30 million and up to R50 million per annum, whilst 2,9% have a turnover bigger than R80 million and up to R100 million per annum.

- * For 54% of respondents, the UK is the most important source country, whilst 28% indicated it as their second most important source country.

In terms of being unique and entrepreneurial 90% claim to be unique by providing tailor made services, are flexible to client needs and provide personalized services.

A total of 73% of respondents have never made use of Tourism incentives whilst the 27% of respondents used the following incentives: DTI vehicle grants, ITMAS and TEP support.

They indicated that incentives are needed to do: capital expansions, international marketing and training support.

In terms of supporting BEE in **principle**, 22% indicated that they **fully support**, 50% **partly** support and 28% **do not** support it at all.

In terms of the extent to which they **apply** BEE, 16% **fully apply**, 46% **partly apply** and 38% **do not** apply BEE.

In order to identify the areas in which BEE is applied, the researcher generated the following data: (Only significant % indicated in summary)

Percentage of turnover that are generated due to business with PDI enterprises

0%	-	56,9%
5%	-	9,8%
20%	-	5,9%
50%	-	9,8%
60%	-	2,0%

Percentage of clients whom are black

0%	-	44,2%
1%	-	11,5%
2%	-	13,5%
5%	-	7,7%
10%	-	7,7%

Percentage of your management that are PDI's

0%	-	64,7%
1%	-	3,9%
20%	-	3,9%
25%	-	5,9%
30%	-	3,9%
50%	-	3,9%
60%	-	3,9%
70%	-	1,4%
100%	-	5,5%

Percentage of Business Ownership by PDI's

0%	-	77,6%
1%	-	2,0%
30%	-	2,0%
50%	-	2,0%
59%	-	2,0%
100%	-	14,3%

Percentage of turnover invested in local communities

0%	-	45,1%
1%	-	13,7%
5%	-	5,9%
10%	-	15,7%
20%	-	5,9%
35%	-	2,0%

Percentage of total procurement awarded to PDI enterprises

0%	-	40,8%
5%	-	14,3%
10%	-	6,1%
20%	-	12,2%
35%	-	6,1%
20%	-	12,2%
35%	-	6,1%
50%	-	2,0%
55%	-	2,0%
70%	-	2,0%
80%	-	2,0%

Percentage of your product offerings that consist of PDI's products/services

0%	-	29,4%
1%	-	2,0%
2%	-	2,0%
5%	-	13,7%
10%	-	17,6%
15%	-	7,8%
20%	-	9,8%
30%	-	7,8%
50%	-	2,0%
60%	-	3,9%

Percentage of your annual training budget devoted to BEE

0%	-	79,0%
1%	-	4,2%
100%	-	6,3%

Percentage of staff that are PDI's

0%	-	46,2%
25%	-	5,8%
30%	-	5,8%
50%	-	7,7%
70%	-	3,8%
80%	-	1,9%
100%	-	9,6%

Tour operators also indicated the most important skills required in their business to be:

- 1 Communication skills
- 2 Skills to acquire product knowledge
- 3 Understanding clients and their needs
- 4 Marketing skills
- 5 Service delivery skills

In terms of training needs they identified Languages (72,6), Tourist guiding (54,8%), Marketing (42,5) and E-business (38,4%) as important subjects. The preferred diploma courses as the most desirable in terms of formal training and short courses, learnerships and job-shadowing as desirable non-formal kinds of training. The format of tuition for residential and distance education were identified as part time studies instead of full time studies.

Researcher: Theuns Vivian

Focus group member:..... *Walter Suberitz* 

Focus group member:..... *Michael Tatalias* 

Focus group member:.....

Focus group member:.....