



# Developing Rural Economies through Small to Medium Tourism Enterprise: the case of Matatiele and Cedarville in the Eastern Cape, South Africa

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Globally, nations depend on small businesses as engines for economic growth. Small to Medium Tourism Enterprises (SMTEs), as part of the small business sector, are increasingly becoming important in terms of job creation, wealth creation and driving economic growth in smaller rural geographic areas. Utilising a mixed research approach, the paper identifies characteristics of SMTEs in Matatiele and Cedarville with the intention of identifying specific ways in which they can be supported to attain their real potential in enabling economic development in rural environment. Purposive sampling method was used to select respondents and self-administered questionnaires utilised to gather relevant data from managers/owners. The results indicate that the rural tourism is dominated by female-owned enterprises primarily offering accommodation services. Most of the enterprises have been in operation for a period of more than five years which points to potential growth as they are able to survive. The results further show that the businesses that participated in the survey intent employing more full-time employees. Furthermore, the results underscore that there is lack of local government support to promote entrepreneurship in the SMTEs sector particularly those that are located in the rural environment. The findings elucidate the ability of SMTEs to greatly reduce the high unemployment in rural economies if appropriate systems are put in place to support these enterprises. These findings have implications for the national, provincial and local government spheres in South Africa in their quest to create job opportunities in rural areas through entrepreneurship and SMTEs in order to provide impetus to the Eastern Cape Province and South African Economy. This paper

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recommends that government creates an enabling environment for SMTEs to operate optimally in the rural environment.

**Key words:** *Rural Economies, Small to Medium Tourism Enterprise, South Africa*

## **Introduction**

Small Medium and Micro Enterprises (SMMEs) are universally recognised as engines behind growth and development of economies, making substantial contributions to value created within countries (OECD 2016). Herrington and Kew (2016) argue that entrepreneurs disrupt market equilibrium by introducing new product-market combinations. SMMEs create more than 40 percent of employment opportunities and add more than 20 percent to the Gross Domestic Product of South Africa (Mxunyelwa & Vallabh 2017).

Tassiopoulos (2008) avers that SMMEs play a fundamental role in creating jobs and reducing unemployment rate. In Latin America and the Caribbean, SMMEs make up more than 95 percent of all business establishments and absorb more than 85 percent of private sector employment (Brink, Ligthelm and Cant 2003). The same trend is observed in the United States of America where small businesses comprise 99 percent of all business establishments and contribute more than 60 percent of private sector employment (State of Small Business in America 2016).

In developing countries such as India and Brazil, SMMEs are believed to be the major drivers of economic growth (Calza & Goedhuys 2017). In South Africa, the sector contributes over 55 percent of total workforce (Kerr, Wittenberg & Arrow, 2013) and between 52 percent and 57 percent to gross domestic product [GDP] (Abor & Quartey, 2010). In addition, SMMEs are also major creators of employment for semi-skilled and unskilled labour force, who would otherwise be unemployed specifically in the rural areas (Makina et al. 2015:1; Rankin, Darroll & Corrigan 2013).

Approximately 73 percent of the unskilled labour force is employed in business enterprises that have fewer than 50 employees (Amra, Hlatshwayo & McMillan 2013). SMMEs also play a critical role in redressing historical imbalances by increasing the participation of black people in the mainstream economy. This creates potential for black people to own economic resources, thereby improving their quality of life. In summary, SMMEs have potential to reduce unemployment, generate income, create assets, contribute to skills development and alleviate poverty in the rural parts of South Africa (Rogerson, 2010; Munzhedzi, 2015).

Mxunyelwa and Lloyd (2019) and Mxunyelwa and Vallabh (2017) argue that economies will be unsustainable without entrepreneurship and SMME development. This claim resonates with the government of South Africa which has repeatedly identified the small business sector as an important vehicle for addressing the challenges of job creation, sustainable economic growth, equitable distribution of income and overall stimulation of economic development in both

urban and rural settings (Herrington & Kew, 2016; Fatoki, 2014). As a result of the potential that this sector possesses the government raised the status of its small business initiatives with the creation of the Department of Small Business Development dedicated to this cause in 2014 (SARB, 2015).

Regardless of the positive relationship between small business development and economic growth, the performance and sustainability of these businesses, especially in South Africa, have been poor (Fatoki, 2014; Van Scheers 2018:167) and failure rates high (Adeniran & Johnston 2011: 5; Maye 2014:2). The estimated failure rate of small businesses ranges between 70 percent and 80 percent (Biyase 2009; Fatoki & Smit 2011; Adeniran & Johnston, 2011). This rate is almost similar to the claim by Maye (2014) that five in every seven small businesses fail within the first year. Herrington and Kew (2016) claim that the discontinuance rate of small businesses in South Africa is increasing at an alarming rate in both urban and rural segments. This in turn has a negative impact on the level of unemployment especially in rural parts of the country because they are underdeveloped.

The factors cited for poor performance and eventually, death of small businesses revolve around economic factors such as competition, changes to technology, access to markets and relationships with stakeholders (Vallabh,2014). Other causes include government programmes and policies, school-level entrepreneurship education and training, research and development transfer and cultural and social norms.

The feasibility of the businesses, abilities and ambitions of the entrepreneurs and factors within the environment are also cited as factors that curtail performance of small businesses (Herrington & Kew, 2016). SMMEs in South Africa also face constraints in employing competent personnel with adequate skills and experience in areas such as financial management (Kasekende and Opondo, 2003). In addition, some problems arise from late payments by debtors and inability to raise own finance as well as access financial services from formal sources (Mxunyelwa,2019).

In Africa the SMME sector is one of the fastest-growing and most vibrant. Despite global economy contraction, the tourism sector in Africa, is one of the fastest growing sectors and has significant potential to create jobs, uplift inclusive economic growth across the continent, and reduce poverty (PWC 2016). In South Africa, tourism has a fundamental role in creating an inclusive sustainable economy. Referred to as the 'New Gold', tourism sector is thriving and is considered to have high potential for further growth and job creation (South Africa Government 2020). Whilst other sectors are struggling and the economy is expected to slump, the South African tourism industry continues to thrive. In 2018, the South African tourism sector contributed R425,8 billion to the economy (8.2% to the country's GDP) and 1.5 million jobs (9.2 percent to total employment), making it the largest tourism economy in Africa (World Travel & Tourism Council, 2019; PWC 2019).

Small to Medium Tourism Enterprises (SMTEs) are a key cog to the tourism sector. They are seen as the backbone of the tourism industry and drivers of social and economic transition and are credited with creating a more diverse economic structure. Tourism is traditionally an industry of small and medium-sized enterprises (Bastakis, Buhalis and Butler 2004). This pattern is found in European countries such as Italy, Germany and the United Kingdom, where most of the tourism and hospitality businesses are run by owner-operators and their families (Getz & Carlsen 2000).

In South Africa, over three quarters of all tourism industry are small enterprises, employing between 5 and 49 employees (Department of Environmental Affairs and Tourism 2007). The SMTEs are located in remote or peripheral areas and far from core economic activities with poor access to and from competitive markets where they can be tested or be determined their strength of growth and development (Irvine and Anderson, 2004; Nilsson, Petersen and Wanhill, 2005). This is especially typical in areas such as Matatiele and Cedarville in the Eastern Cape Province of South Africa, where farmers diversify their economic activities and start tourism businesses to supplement incomes from farming.

The Eastern Cape province has the highest unemployment rate, sitting at 36,5 percent whilst the extended unemployment rate was a staggering 46 percent in Quarter 3 of 2019. The rate is higher for the youths where the rate is over 50 percent (ECSECC 2019). The youth unemployment rate in the Eastern Cape has been increasing at alarming rates for the past decade, from 37 percent in 2010 to over 50% in 2019 (ECSECC 2018; ECSECC 2019). The rate is even higher for youths in the rural areas where it is as high as 75% in rural Mpumalanga (Wilkinson et al 2017). SMTEs should provide the impetus for growth and development to rural economies that are usually marginalised. The purpose of this study is to identify the role SMTEs in developing the rural economies in Matatiele and Cedarville.

## **Methodology**

The study was description in nature and primarily conformed to the mixed research design. This is a method of utilising a combination of both quantitative and qualitative research methodologies (Morse & Niehaus 2009). A survey, utilising a self-administered questionnaire, which was cross-sectional, was used to gather data from conveniently selected respondents. Surveys are the most widely used method of collecting descriptive information about a group of people (Stangor, 2011). Zikmund, Babin, Carr and Griffin (2013) defines a survey as a research strategy in which a sample is interviewed in some form or the behaviour of respondents is observed and described in some way. It is frequently used to provide answers to “what”, “who”, “where”, “how much” and “how many” questions. The population for the study included small businesses that were operating in the tourism sector in Matatiele and Cerdaville. Non-probability sampling method, in which units of the sample are selected on the basis of personal judgment of convenience (Zikmund et al 2013), was used for the study. The

respondents for the study were selected using the convenience non-random sampling technique.

The study solicited responses from literate participants, thus making a self-administered questionnaire an appropriate measurement tool. Questionnaires are the main research instrument that is used in surveys and they provide an efficient way of collecting data from a large sample prior to quantitative analysis. They are the primary instrument used for descriptive and causal studies (Saunders, Lewis & Thornhill 2012)

Self-administered questionnaires were distributed to the owners/ managers of the SMTEs in Matatiele and Cedarville towns to collect data. Due to time and financial constraints, questionnaires were distributed to 30 respondents only.

### **Literature review**

The literature reviewed focusses on the meaning of SMTEs as well their contributions to the South African economy.

### **Defining a small business**

There is no single definition for a small business that is universally accepted in literature (Evans, Hansford, Hasseldine, Lignier, Smulders & Vaillancourt, 2014). According to Leopoulos (2006) as cited by Smit and Watkins (2012), the numerous definitions used in different countries are influenced by geographical placement and country-specific legislation. In the European Union, SMTEs are defined as businesses that employ fewer than 250 people, however some countries set the upper limit to 200 employees. The United States of America considers SMTEs to include firms with fewer than 500 employees (European Union, 2000). In South Africa, small businesses are defined in terms of the National Small Business Act (NSBA) and the tax legislation.

The widely used framework to define small businesses in South Africa is set out in the National Small Business Act (NSBA) 102 of 1996, which identifies four categories of small businesses. The NSBA defines a small business as a separate and distinct business entity managed by one owner or more, including its branches or subsidiaries, is predominantly carried on in any sector or subsector of the economy and which can be classified as a micro-enterprise, a very small enterprise, a small enterprise or a medium enterprise. The definition employed for small business enterprises is based on the number of people employed combined with the annual turnover categories and the gross assets (DTI, 2008).

To qualify as a small business, the SMTE should meet the qualifying criteria as provided by the NSBA, as amended in the National Small Business Amendment Bill of 2003 (DTI, 2008). These qualifying criteria are presented in Table 1.

**Table 1: Definition of a small business in Tourism**

Sector or subsectors in accordance with Standard Industrial Classification (SIC)	Size or class	Total full-time equivalent employees Less than:	Total annual turnover Less than:	Total gross asset value (excluding fixed property) Less than:
Catering, Accommodation and Other Trade	Medium	200	R13.00m	R5.00m
	Small	50	R6.00m	R1.00m
	Very small	20	R5.10m	R0.90m
	Micro	5	R0.20m	R0.10m

Source: Adapted from DTI (2008)

Micro enterprises are businesses that usually lack formality in terms of registration. They employ between one and five people and include spaza shops, minibus taxis and household industries among others. Very small enterprises are businesses employing fewer than 10 paid employees, except in mining, electricity, manufacturing and construction sectors, in which the number is 20. These enterprises operate in the formal market and have access to technology. The category includes self-employed artisans (electricians, plumbers) and professionals. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices. The upper limit of this category is 50 employees. Medium enterprises are businesses that have up to 200 employees. Like the small business enterprises, they are also primarily owner-managed, but have a decentralized management structure with division of labour. They operate from fixed premises and have all formal requirements (Abor & Quartey, 2010).

Through the South African Revenue Services (SARS), the South African government offers tax incentives and reliefs to a number of small businesses. For the businesses to qualify for these reliefs, they should meet the definition of the small business as specified by the different sections of the tax legislation. The legislation does not have a single definition for a small business, instead there are several definitions utilized for different purposes. There is a definition for income tax purposes, value added tax (VAT) and skills development levy (SDL) amongst other taxes.

For income tax purposes, Section 12E of the Income Tax Act, defines a small business, referred to as a small business corporation (SBC), as a close corporation, co-operative or private company whose shareholders should be natural persons all time during the year of assessment. In addition, it must not make more than R14m gross annual income; owners must not have any investment in any other company, should not provide personal services and no more than 20 percent of the income should not be derived from investments or from rendering personal services (Stiglingh, Loekemoer, van Schalkwyk, Wilcocks & de Swardt 2012). There are a

number of other conditions to be met for a company to be considered small, refer to Stiglingh et al. (2012).

For VAT purposes, businesses with taxable supplies not exceeding R2.5 million over a twelve-month period are considered to be small. These businesses are permitted to submit VAT returns every four months instead of the normal monthly or bi-monthly requirement. In addition, certain small businesses may elect to pay VAT on the cash basis. To encourage hiring of employees, thus enabling growth, SARS exempts businesses incurring a total annual remuneration not exceeding R500 000 from paying SDL (SARS, 2017). For SDL purposes, a small business would be a business with a payroll bill of R500 000 or less (Stiglingh et al., 2012).

The challenge with the NSBA definition is that, besides the number of employees, information on asset value and turnover might not be readily available due to lack of knowledge and/or sensitivity of such information from small businesses. As a result, the number of employees is common qualifying criterion used to differentiate between the four classes of small businesses (OECD, 2017).

The tax definitions are usually too long and complicated to be understood by an ordinary man on the street. Small businesses need to understand the differences in these definitions as qualifying for one tax relief does not imply qualifying for the others. Besides understanding the definitions of small businesses, owners should also be able to assess their businesses and see if they still meet the conditions of qualifying on a yearly basis. Qualifying as a small business in one year does not necessarily mean qualifying again in the other year as the qualifications are mostly based on what is expected at the end of the year.

The tax definitions based on VAT and SDL do not apply to all businesses. One business may be small for VAT whilst not qualifying for SDL. Most small businesses considered for VAT and SDL are actually referred to as micro-enterprises by the National Small Business Act. The limitations in the definitions led to the adoption of a definition that is based on number of employees only. For the study, a small tourism business, is a business which has no more than 100 full-time equivalent employees.

### **Contribution of SMTEs**

SMTEs play a crucial role in developing the economy and creating new opportunities particularly in small towns and in some rural areas where there are potential tourist attractions. Many governments and policy-makers now rely on tourism sectors for economic regeneration and strategic local development (Tassiopoulos 2008).

The largest groups of SMTEs in rural areas are involved in craft production, selling, fishing and accommodation provision.

According to Dahles (1997) the main benefit of SMTEs include:

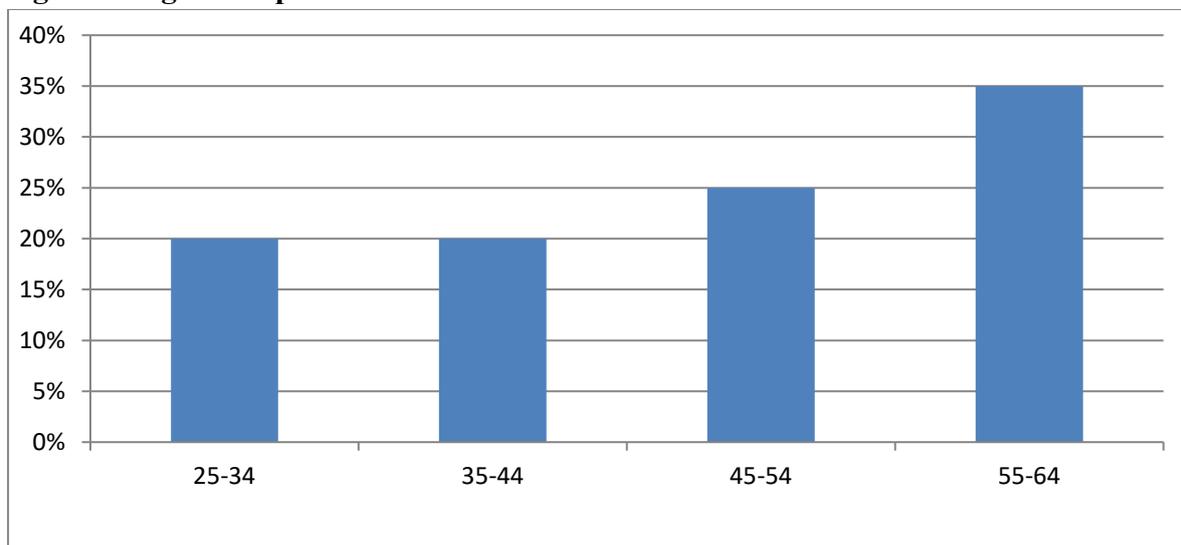
- Being less disruptive in environmental and social terms;
- Having more modest capital requirements which permits local participation;
- Leaving control in the hands of the locals;
- Fitting in with indigenous activities and land uses;
- Contributing to communal development and generation of greater local benefits than large-scale tourism projects.

A principal argument in favour of encouraging the development of tourism SME's is that it creates many jobs. The employment may be both direct employment within tourism businesses (for example, hotels) and indirect employment in enterprises that benefit from tourism (for example, general retailing).

## Results and discussion

The age profile of the respondents is provided in Figure 1 below.

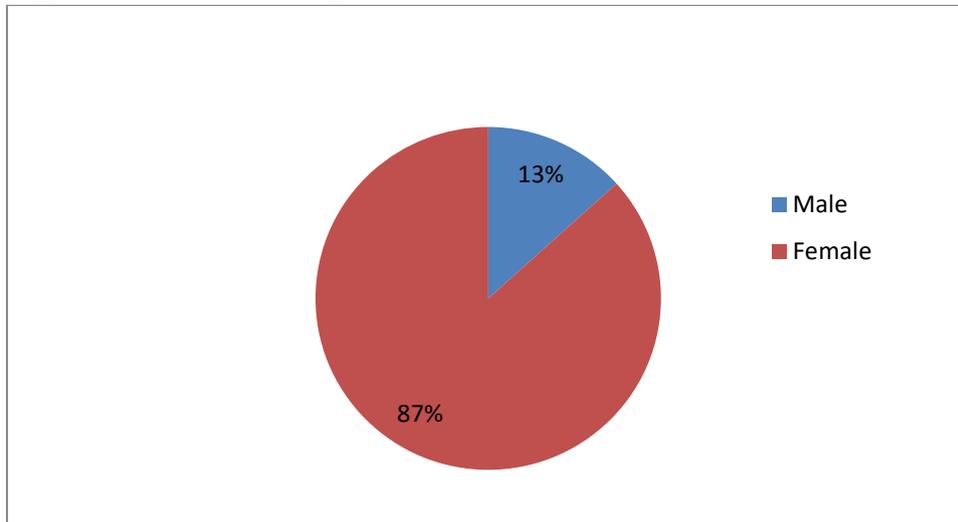
**Figure 1: Age of respondents**



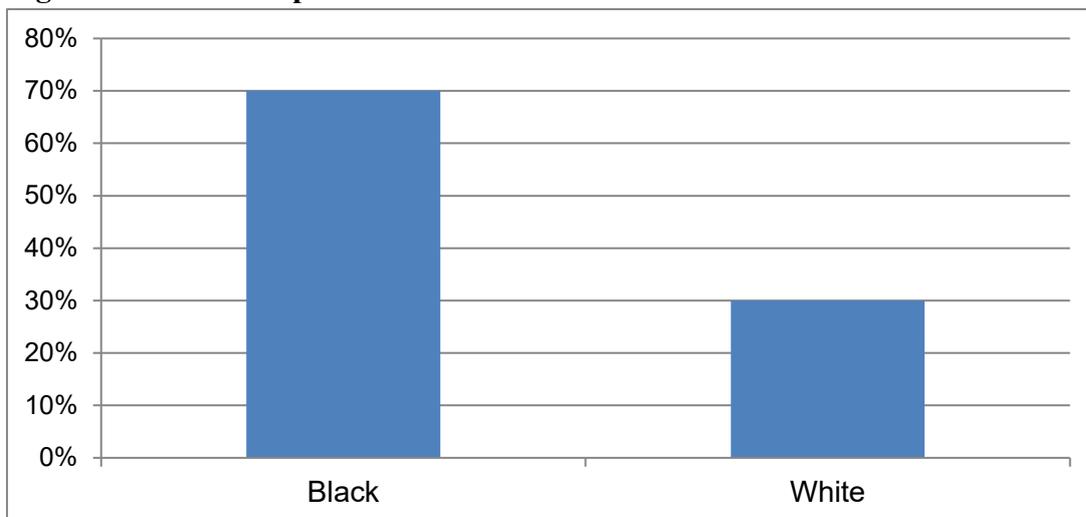
As portrayed in Figure 1, 80 percent of the respondents were over 34 years of age leaving only 20% percent being younger than 35 years. About 35 percent of the respondents were over the age of 55 years. This concur with the claim that the entrepreneurial spirit in South Africa is very low (GEM, 2017). There is a possibility that those involved in this type of business venture in for survival purposes after failing in other avenues. The findings, however, are in contrast with the claim that three quarters of owner/managers are between the ages of 24 and 55 years with only 11 percent above 55 years (DEAT, 2007).

In terms of gender, the bulk of the respondents were females, 87 percent, as shown in Figure 2. Generally, more women are engaged in tourism business compared to men.

**Figure 2: Gender of respondents**

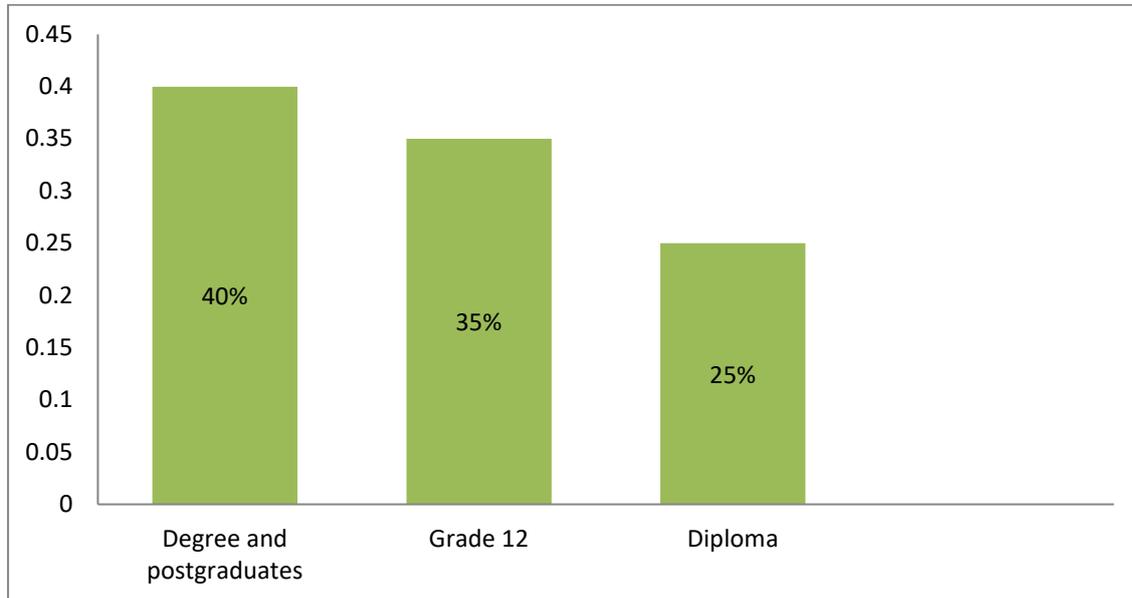


**Figure 3: Race of respondents**



When looked in terms of race, Figure 3 shows that 70 percent of the respondents were black whilst the remaining 30 percent were whites. Tassiopoulos (2008) argues that the largest proportion of SMTEs in South Africa consists of white owned SMTEs that operates a host of different establishments. Whilst this might be true overall, it is not the case in Matatiele Municipality where the majority of SMTE owners are black. This was expected as inhabitants of Matatiele and Cedarville are predominantly black. This resonates with the claim by DEAT (2007) that black females were dominant in the tourism sector.

**Figure 4: Educational levels of respondents**



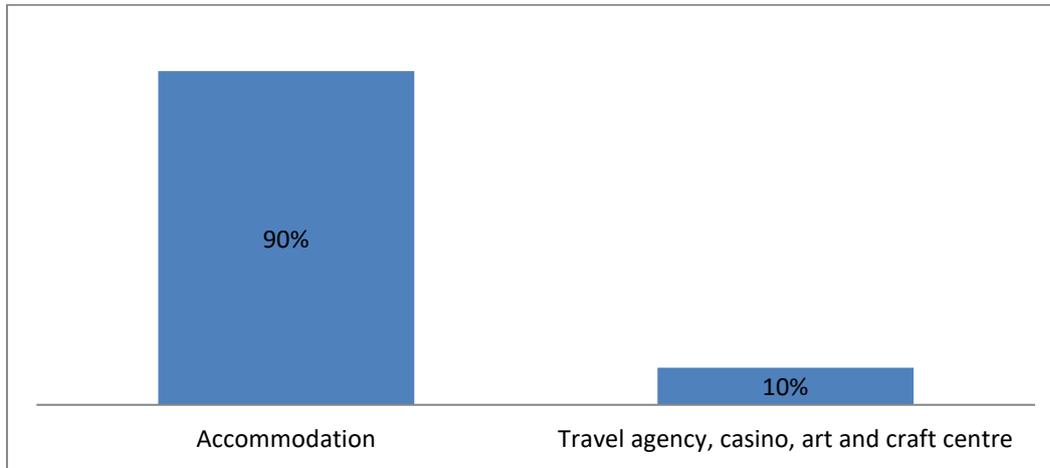
The highest level of education, as portrayed in Figure 4, shows that degree and postgraduate qualification was the common level of education for the respondents. Overall, the bulk of respondents (65 percent), had a post matric qualification which shows that they are skilled people who are likely to understand how businesses operate.

**Table 2: Types of business ownership**

Business type	Percentage
Sole trader	56,7
Partnership	10
Close Corporation	20
Private company	13,3
<b>TOTAL</b>	<b>100</b>

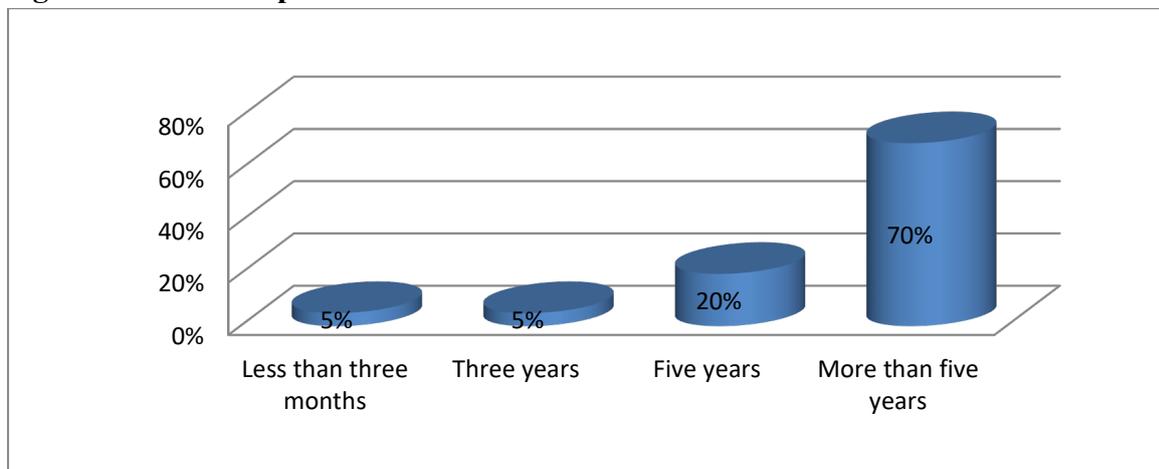
The results in Table 2 above show that 56.7 percent of the SMTEs fell under the category of sole proprietorship, followed by 20 percent that are close corporations. Partnerships had the lowest proportion with only 10 percent. This could be attributed to the fact that majority of owners establish sole proprietorship business to have more freedom of choice in decision making and control on the business profit.

**Figure 5: Sector of tourism**



Most SMTes in Matatiele and Cedarville represented in the survey, as shown in Figure 5, are engaged in the provision of accommodation services. Only 10 percent were engaged in travel agency, casino, art and craft.

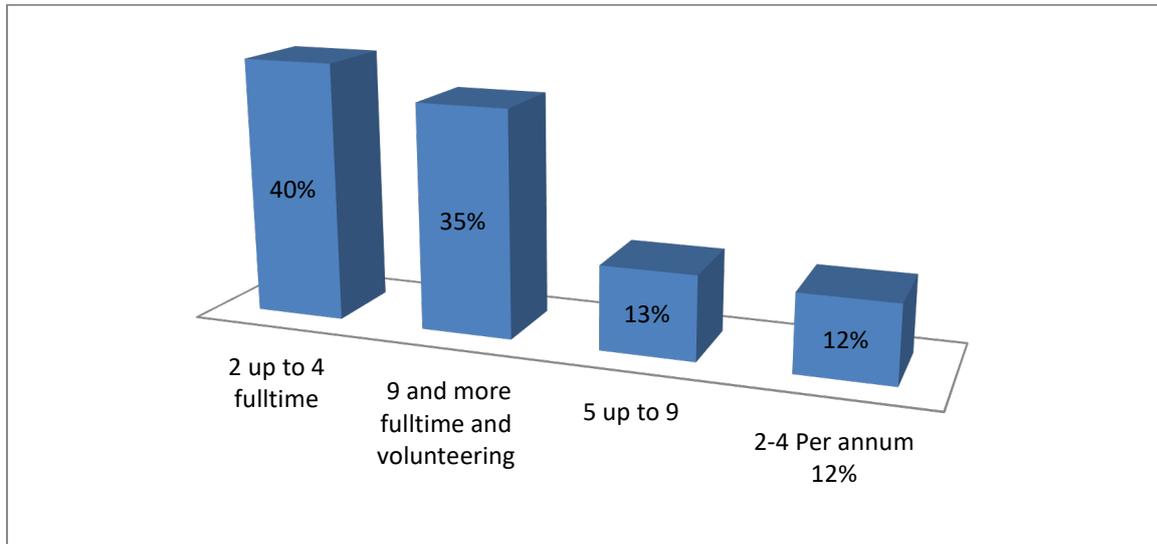
**Figure 6: Years in operation**



As shown in Figure 6, 90 percent of the businesses that were represented in the survey have been operating for five years and above. This is an indication of longer survival rates of these types of businesses despite the claim that most businesses die in their infancy.

Figure 7 presents the number of full-time employees employed by the SMTes.

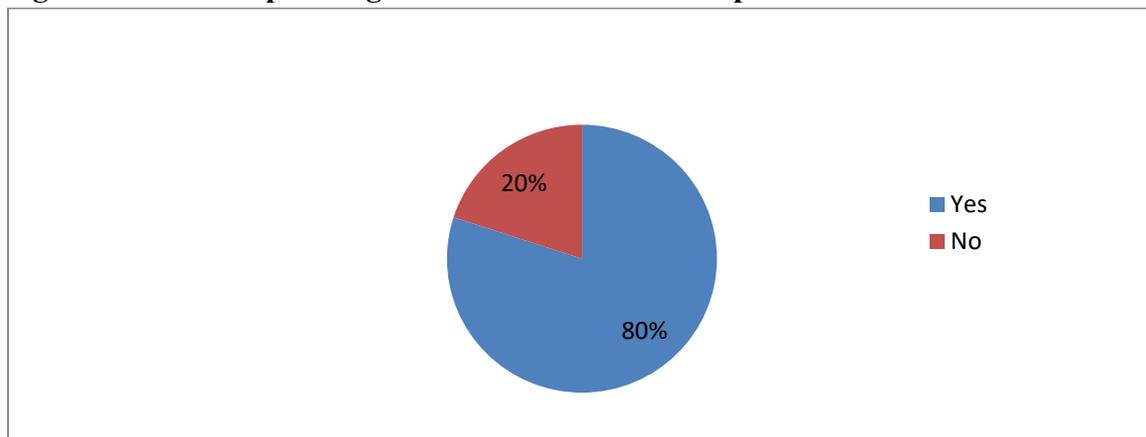
**Figure 7 Number of fulltime employees**



The results in figure 4.8 above show that 40% of the SMTEs employed between 2 and 4 people on fulltime basis, while 35% employ from 9 and more people both on a full time as well as on a volunteering basis during high peak seasons. In the Meantime, 13% of the businesses employ from 5 up to 9 people and 12% from 2 up to 4 per annum.

The respondents were requested to specify whether their businesses have business plans or not.

**Figure 8: SMTEs operating with or without business plans**



Most of the SMTEs indicated that they operated with business plans. Only a few respondents, 20 percent, were operating without business plans, something that could be related to highest qualifications the respondents had. The majority had a post-matric qualification which may mean that they are able to draft their own business plans. The high survival rates may be related to skilled owners/managers who operate with business plans.



The respondents were requested to estimate how many jobs they expect to create in the next five years. The majority of respondents 50% were unsure about the number of jobs to be created by that period of time, whilst 35% estimated to create 4 jobs and 15% estimated to create between 5 and 9 jobs.

## **Discussion**

It is imperative that the relevant stakeholders should be involved in innovative and intensive promotion of small tourism enterprises and the whole of South Africa, which currently can be solved through policy consistency and ongoing research activities. This can assist in attracting positive investments. Lack of investment, lack of skills training and education, and problems such as these can hamper the promotion and development of small business development. A greater availability of funds can go a long way in solving these challenges. Lastly there is need for institutional coordination among all business stakeholders. The researcher therefore recommends that all small tourism business stakeholders especially the government should champion activities that promote stakeholder cooperation and coordination among all tourism stakeholders.

## **Recommendations**

The following recommendations have been drawn up based on the above mentioned conclusions. Despite that SMTEs are being recognised as a tool for local economic development in Matatiele and Cedarville, the paper recommends that the Local Government also provide more funding to these businesses to help them to grow and employ more people. Poor stakeholder involvement in promoting domestic tourism can be caused by poor policies formulation and lack of effective implementation. Hence, in the current study, the researcher recommends that the South African government needs to amend its tourism related policies and ensure consistency in their implementation. Poor promotion and marketing is a problem that can be solved by the government together with the private sector including the local communities.

## **Conclusion**

Thus, SMTEs have a potential to improve the economy of South Africa more especially if they are being supported by the local government stakeholders and solve those problems that makes most of them to fail in their first year of operation.



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