

## **Barriers to profitability in tourism enterprises**

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**Abstract:** The survey was carried out to determine barriers to profitability in tourism businesses in 311 Gauteng Province in South Africa. In addition to quantitative data, additional qualitative data was gathered by conducting in-depth interviews with 4 key officials who were responsible for tourism activities at the South African Chamber of Commerce and Industry. Results obtained from log-linear analysis showed that there was a statistically significant association between degree of competition from rival operators and financial viability, thereby corroborating the assertions made in MAR theories and by Porter (1990). Results obtained from factor analysis showed that the viability of African entrepreneurs in the tourism industry of Gauteng Province was significantly and adversely affected by the degree of competition from rival operators, poor networking ability, lack of entrepreneurial skills, low capital, and geographical location. The study found that African entrepreneurs in the tourism industry of Gauteng Province lagged behind their white counterparts significantly in terms of networking ability, capital and entrepreneurial skills. In addition, 82% of the 311 African entrepreneurs who participated in the study lacked suitable skills due to their poor and irrelevant academic and vocational background, and that 59% of entrepreneurs had received little or no assistance in terms of mentoring or training opportunities by South African Government agencies.

**Keywords:** Small businesses, Entrepreneurial skills, Tourism, Gauteng Province, Factor analysis

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### **Introduction and background to study**

This study focuses on black indigenous entrepreneurs from previously marginalized backgrounds in South Africa. It analyses the magnitude of black entrepreneurs' involvement in tourism; the actual contribution from African entrepreneurs, the challenges faced as well as the socio-economic impact in the Gauteng Province. Although the political transformation has provided an opportunity to change the racially defined industry in a way that would allow the previously disadvantaged to participate in it, very little has changed. Post-apartheid planning and legislation envisaged that political transformation would coincide with economic transformation. In this way it was hoped that black people would participate fully in the tourism industry both as tourists in their own country and as entrepreneurs (South Africa, 1996).

Tourism within these facets harnesses the establishment of new enterprises, creates new jobs and reduces unemployment. It stimulates competition, efficiency and innovation, and contributes to economic growth and prosperity.

### **Literature review**

The review of literature on tourism, entrepreneurship and small business on both the international scenes and in South Africa is vast. Several scholars discuss tourism, its impact, benefits to the economy, the constraints facing tourism entrepreneurs (Nieman et al, 2008; Daskalopoulou and Liargovas, 2008). Studies conducted by researchers such as Mahadea (2012); Rogerson (2008); Chao et al., (2010) and Habiby and Coyle (2010) have clarified the prospects of entrepreneurship in the tourism sector. The authors have identified and quantified factors that affect the viability of informal microenterprises in the tourism sector of the economy.

Booyens (2011:67) agrees that small enterprises have a greater impact on economic performance in highly developed economies where high levels of education, low inflation rates and high level of financial intermediary development are evident. The economic output performance of small medium sized enterprises might not be significant in some economies but there are positive contributions in terms of innovation, facilitating change and enhancing competition.

The benefits of developing tourism SMMEs are wide ranging even in the context of a developing country such as South Africa. Rogerson (2005:626) argues that the economic objectives of increased earnings, foreign exchange, investment, job opportunities, as well as the minimization of diverse social and cultural effects, might best be accomplished through the promotion of small tourism businesses rather than large tourism businesses. This is because the tourism sector is expected to become one of the key drivers of economic expansion, local development and job opportunities in developing countries (Kirsten and Rogerson, 2002:29). Despite such claims and the importance of SMME development in the modern South African economy, it remains that

limited research has been undertaken on the business orientations influencing the performance of small tourism enterprises.

Emerging enterprises need to acquire valuable lessons and skills from well-established enterprises. They should be involved in decision-making structures and in developing meaningful economic linkages with the industry. Areas that require transformation to enable South Africa's tourism industry to benefit previously disadvantaged communities are ownership and control of the tourism industry, distribution of benefits accruing from tourism growth and local communities' lack of knowledge about the industry. Others such as a more proactive role by the public sector continue to receive attention through various policy frameworks (South Africa Info, 1996).

The need for socio-economic equality and equity arose from four concerns namely: moral imperative, to make right the wrongs of the past, the social imperative, conceding that the wealth of the country is a social problem, the economic growth imperative which has been fuelled by the poverty levels in the country and unemployment rate between 35% and 40% and finally the labour skills imperative, which seeks to increase the skills levels of black labour and generate value-added activities within the economy (Bogopane, 2013). The transformation of South Africa's tourism industry is crucial, especially when one considers the efforts by the post-apartheid governments to build an egalitarian society and the quest for an equitable redistribution of resources.

According to Boosens (2011), lack of marketing skills affects emerging tourism operators in South Africa and other developing countries. The author recommends that education and skills based training on entrepreneurial and marketing skills should be provided to new entrants into the tourism sector. New entrants are often exposed to lack of finance, and that this constraint is a key obstacle to growth. The entrepreneurial quality of the SMME owner is a critical factor affecting the ability of SMMEs to survive and achieve sustainable growth. A combination of formal and on-the-job training may be seen as one of the key factors that lays the foundation for success. Education is thought to increase the intrinsic motivation and to energize behaviours (Brijal et al, 2013).

Studies by Aloulou and Fayolle (2005) and Brijal et al (2013) have found that the quality and relevance of education entrepreneurs have, has a significant effect on their chances of survival and growth. The literature suggests that entrepreneurs need to be educated in order to develop their entrepreneurial abilities and contribute to the survival of their businesses. Altman (2007) also asserts that those who attain a higher level of education and entrepreneurial skills are better equipped to communicate with and understand bankers, suppliers and customers which then lead to a higher degree of growth in their businesses. Acquired knowledge is associated with high performance. Differences between average and high performers are attributed to a higher amount of accessible knowledge. In addition, the study asserts that there is a positive relationship between education and business success.

According to Herrington and Kelley (2012), the entrepreneurial environment in South Africa lags behind the environment in developed nations in Europe and North America. The Sub-Saharan African Regional Report apportions a mean score of 2.89 to access to physical infrastructure and services. It is evident that the negative assessments are a result of lack of strategic support for the tourism sector by the South African Government. The key area of need is the provision of primary and secondary level education on entrepreneurial activities. The results presented to the entrepreneurial framework conditions (EFCs) show that the overall entrepreneurial climate in South Africa is unfavourable for entrepreneurship development.

### **Methods and materials of study**

The study analyses the socio-economic factors affecting viability of African entrepreneurs in the province. With the application of both quantitative and qualitative methods, the researcher utilizes the cross-sectional and descriptive research design. The literature review provided a number of socio-economic factors affecting entrepreneurship growth and development. All this evidence was analyzed together with the current findings in the area of study. Quantitatively, participants' responses on the socio-economic factors affecting African entrepreneurial activities were represented in statistical form. Results were reported in the form of descriptive statistics such as means, and standard deviation. Qualitatively, the responses were described and narrated in words. The study involved "the steps, procedures and strategies" that were employed to collect and analyze data (Polit & Beck, 2004). The researcher focused on bracketing before going to the research field. Bracketing entailed setting aside preconceived ideas and opinions about the study area such that the researcher would not be influenced by ideas while handling data (Polit & Beck, 2004) about the socio-economic factors affecting African entrepreneurial activities.

A stratified sample (Welman et al., 2005) of 311 participants from different socio and economic settings namely: accommodation, tour and travel companies, art and craft, catering and other business establishments. A total number of 272 African entrepreneurs was selected, 30 local community participants and 9 government and

provincial officials were selected. Three instruments were used in this study: 1- face-to-face interviews - questionnaires (Babbie, 2010). Interviewers were guided by interview and schedules with open-ended questions. The questionnaire consisted of two sections: open-ended questions section and a five-point Likert scale section. Both the interview schedules and the questionnaire were validated by three independent research experts. The validity of the questionnaire of study was ascertained by conducting pre-testing and face validity (Welman et al, 2005). By using unstructured observation, the researcher was not restricted on what to see and record while collecting data in the field. Observation enabled the researcher to gather actual data from real situations. Any important aspects on the impacts of tourism observed during the study were immediately recorded in field data and a notebook to minimize the possibility of forgetting certain details. The specific analytical approach was rooted in the conceptual and theoretical framework of the study. The statistical methods used in the study for data analyses were appropriate for providing adequate answers to each of the key research questions of the study.

### Results

The results of the study were obtained from frequency tables, cross tabulations, factor analysis and in-depth interviews. Data analysis was performed by using Pearson’s chi-square tests of associations in order to identify factors that were significantly associated with viability (Dawson and Trapp, 2004:104-109). Table 1 shows results from bivariate analysis.

Table 1: Results from bivariate analysis

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

### Results obtained from log-linear analysis

Data analysis was performed by using log-linear analysis (Agresti, 2003:39) in order to identify key predictor variables that were significantly associated with each other. Log-linear models are hierarchical in nature. In general, there could be an interaction of order k. At k successive steps, interactions of order k (the highest order), k-1, k-2... 3, 2 and 1 (the main effects) are tested for significance step by step. The most useful order is k=2.

Table 2: Results obtained from log-linear analysis

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

The above results were tested on interactions of order k=2 mainly: variables on intense competition from rival operators and viability; lack of entrepreneurial skills and poor networking; geographical location and low capital and all the tests were found to be with a P-value of 0.000 and therefore very significant.

Factor analysis was used for reducing the number of factors that had to be analysed. The method produced 5 influential predictor variables that influenced viability in tourism businesses operated by black entrepreneurs in the Gauteng Province. Factor analysis is useful in cases where the correlation among the variables of study is significant. The correlation matrix in this study showed that several pairs of variables had correlations exceeding 0.3, thereby showing that factor analysis was appropriate. In this study, a cutoff point of 0.3 was used as is recommended by Field (2010:138). The variables found to be highly significant with viability

were as follows:

- High level of competition from rival tourism operators
- Poor networking ability
- Lack of entrepreneurial skills
- Low capital
- Geographical location

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

### **Results obtained from the in-depth interviews**

The difficulty in accessing finances for the business was a major problem cited by many of the respondents. The majority of the respondents complained about the long procedures of getting sufficient loans from well-established financial institutions. The conditions to which these SMMEs are faced limit their dependency. As a result, the majority of these SMMEs never succeed as a direct result of sourcing finance from institutions, but from own start-up capital. Many of the respondents did not have a marketing strategy but relied mainly on networks with other counterparts. Unlike the already established tourism enterprises, these businesses were seen to be well established with proper branding of their products, active and have a well administered online website and fairly good infrastructure particularly the guest houses, Bed and Breakfast and transport facilities.

From the group discussions at the Local Tourism Organization (LTO) sessions, Furthermore, the majority of the respondents were found not to have registered their businesses with the DTI. The main problem expressed by these respondents was documentation, as well as knowledge of legislation governing small businesses. It was also evident that the majority of these respondents were not informed about government support systems in place for entrepreneurs in small businesses. With reference to poor networking, it was evident from the regional and local tourism organisations that the majority of entrepreneurs that attend these weekly meetings that are facilitated by tourism officers are mainly the black entrepreneurs. On some of the encounters some entrepreneurs complained that these meetings were a waste of time and money. Good results were never implemented and as such these meetings were poorly attended.

The willingness of government to support and empower SMMEs is evident. The majority of respondents were not aware of the available support offered by various government bodies. For instance, organisations like SEDA, TEP and the National Youth development Agency were not known. These government programmes have training programmes but unfortunately this training is not seriously utilised by the people running the businesses. In addition, education is vital in the success of small business growth and development. The majority of local black entrepreneurs had only attended high school education. This major barrier disadvantaged these respondents from actual access to information. The majority of the respondents were comfortable in communicating in local dialects which obviously disadvantages them. The majority of the tourists who arrive in the cities and townships would prefer to use English as the medium of communication. Knowledge of international languages would be an added advantage. The respondents in the business of arts and crafts at the Pretoria Union Buildings admitted that language was a limiting factor in improving their sales. The ability to speak foreign languages like German, French, Portuguese or Mandarin created a conducive atmosphere and the enticement by the tourists to buy the commodities on sale. Finally, the majority of the respondent's particularly from the township areas admitted to be doing good business only when certain events advertised nationally would be taking place. Some of the events mentioned among others included jazz festivals, beer festivals, soccer derbies and funerals. Township destinations were not popular among foreign tourists as well as the local communities.

### **Discussion of results**

To begin with, the degree of competition from rival tourism operators and financial viability is high between African local entrepreneurs and White/international entrepreneurs. Local black entrepreneurs do not have the financial ability to influence tourism activities. There is agreement in the cited literature of the ability to raise finance as one of the greatest challenges facing small business owners. Herrington and Kelley (2012) states that access to finance is a major problem for South African entrepreneurs. The results show an observed chi square value of 89.35 and P-value of 0.000. These results emphasize the huge gap in the competition between local black entrepreneurs and rival competitors. As Nieman and Pretorius (2004) put it, finance is an important resource in creating a new venture and a critical factor necessary for small businesses to succeed. Cronje, Du Toit and Motlatla (2001) argue that potential entrepreneurs need to be familiarized with the particular environments and industries in which they want to operate. This necessitates that entrepreneurs themselves should contribute to the creation of an environment that is conducive for them to operate businesses

efficiently.

The variable on poor networking ability had an observed chi-square value of 78.36 and P-value of 0.000. This variable emphasizes that as compared to rival businesses, local black entrepreneurs had poor networks in the tourism sector. It was evident from the interviews conducted that the majority of respondents were not known and lacked poor marketing strategies in the township areas and abroad. It was evident also that the LTO meetings which should be the right platform for business networks were poorly attended by the relevant stakeholders. Acquisition of technology transfer into small businesses should enhance internal and external market awareness through standardized facilities, usage of social platforms like face book, twitter, to create awareness about certain destinations and active online websites advertising relatively affordable tourism packages. Some of the well-established enterprises not only import skilled expatriates from first world countries like Europe and America but also have information centres abroad that constantly market South African destinations. Local black entrepreneurs not only lack the internal and external business networks as compared to rival tourism operators but also the knowledge on tourism and hospitality.

Entrepreneurial capacity enables entrepreneurs to exploit available opportunities. The Global Entrepreneurship Monitor (2010) has reported that economic forces can influence market opportunities and ultimately result into prosperity or adversity on organizations in different industries and different locations. These results show an observed chi-square value of 74.55 and P-value of 0.000. The level of entrepreneurship skills among local black entrepreneurs is alarming. According to Herrington and Kelley (2012), an entrepreneur is an individual willing to take calculated risk to explore a market need with an idea that is sound and economically viable. The level of entrepreneurial skills applied in the business is based on the number of operational elements of entrepreneurship such as compiling a business plan, an analysis of competitors, venturing into new businesses and willingness to take calculated risks.

Securing finance in this regard is pivotal. The results from the analysis show an observed chi-square value of 59.66 and P-value of 0.000. These results show that difficulty in securing finance needed for operation is critical. The majority of local black entrepreneurs struggle to access finance for their businesses. Nieman et al. (2003) maintain that entrepreneurship cannot be developed all by itself. Banks and financial institutions are critical in the development of small businesses.

Unlike private investors, the public sector however, can make no such excuses as it has a mandate and an obligation to social development. Small-scale tourism development is preferable to consortium-driven grand tourism development because of the negligible disruption to the environment. It also empowers local communities directly. This creates a sustainable tourist product as locals are often best placed to meet the demand for the tourist's search for idyllic places. On the contrary, big commercial investors often lack compassion for local communities and an affinity for tourists which they make up for by investing heavily in luxurious and comfortable star-rated hotels which then overcharge guests. The rich investors in tourism development get richer and the poor local communities get poorer.

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

The creation of world standard attractive tourism destinations in the rural geographical locations of Tshwane municipality require a lot of financial capital to set up acceptable infrastructure permissible to international tourists as well as the domestic tourists within South Africa. The results show that this variable was very significant with an observed chi square value of 52.97 and a P-value of 0.000. Ultimately, local black entrepreneurs would need a lot of financial and business support to provide the expected tourism products that are befitting for world standards. The township tourism destinations need to be managed effectively by the tourism departments. The variable on geographical location is important because the closer the destinations are to the Central Business District (CBD) of Pretoria, the more popular and the more business is received by the surrounding enterprises. The hotels, for instance, around Pretoria are usually booked in with guests from all over world. For instance, Sheraton, Southern Sun, the Protea Hotel, Roadhouse and yet township guest houses would provide even affordable accommodation.

As a relatively new democracy, the government has an obligation to channel a lot of resources to redressing past ills. The results show an observed chi square value of 50.08 on lack of support from government and P-value of 0.000. This variable is critical for the success of local black entrepreneurs especially during their

entrance in the tourism sector. The literature shows sufficient intervention especially in South Africa but upon evaluation, this support does not seem to trickle down to the emerging entrepreneurs. Herrington and Kelley (2012) argue that government policies are a key obstacle to emerging entrepreneurs in the tourism sector. Herrington and Kelley (2012) recommend that government policies must be tailor-made to the needs of emerging tourism operators. They have called for the establishment of general support programmes for new entrepreneurs. Policies encourage the development of small businesses. Unfortunately government as a public institution is synonymous with bureaucracy, excessive red tape, rules and regulations and other interferences that are not conducive for entrepreneurial growth.

The White Paper on the Development and Promotion of Tourism in South Africa (South Africa, 1996) identifies the role of government in tourism development as one of facilitation and coordination. The government is expected to establish and provide an appropriate climate for private sector investment in tourism and to put measures in place for the supply of the required skills and infrastructure. The government has an obligation to regulate and monitor the tourism industry as well as to promote development by establishing mechanisms to monitor standards and services and to promote the involvement of local communities. Above all, the government has provided a legislative framework for the growth of the industry, including promoting responsible tourism (South Africa Info, 2007).

During interactions with black entrepreneurs, it became clear that they were unaware that they could get financial assistance from institutions other than the commercial banks. The majority had never heard of Khula Enterprise Finance, TEP, Poverty Relief Programme, IDC, International Tourism Marketing Aid Scheme, or the Small Medium Enterprise Development Programme. A few knew about the DBSA although they did not know how it works. There is a general lack of information on services available to those wishing to establish tourism-related enterprises.

In 2004 the DEAT, in partnership with the TBCSA, the TEP and ABSA, released an information booklet entitled *How to Start and Grow your Tourism Business*. This booklet provides information on how to start a tourism business, including where to obtain funding. The public sector needs to increase its spending on tourism businesses owned by previously disadvantaged people. This could be done by utilising their accommodation, conferencing, catering and travel facilities.

### **Conclusion**

The study confirms that the degree of competition from rival tourism operators and financial viability is high compared to the African local entrepreneurs. Local black entrepreneurs do not have the financial ability to influence tourism activities. There is agreement in the literature that the ability to raise finances is one of the greatest challenges facing small business owners in South Africa. In order to succeed, local black entrepreneurs should contribute to the creation of an environment that is conducive for them to operate business efficiently as well as acquire the financial assistance to be able to compete with rival competitors. Commercial banks should be proactive in offering all forms of support to small businesses.

In addition, local black entrepreneurs have poor networks in the tourism sector compared to their rival competitors. It was evident that these entrepreneurs lack appropriate marketing strategies and technology that would otherwise enhance their entrepreneurial activities. Local black entrepreneurs not only lack the internal and external business networks as compared to rival tourism operators, but also knowledge on tourism and hospitality.

Furthermore, the study affirmed that local black entrepreneurs do not have entrepreneurship capacity. The majority of the entrepreneurs did not have a business plan nor could they conduct an analysis of the competitors, or have the willingness to take calculated risks. The creation of world standard attractive tourism huge destinations in the rural geographical locations of Tshwane municipality require financial capital to set up acceptable infrastructure permissible to international tourists as well as the domestic tourists. The majority of local black entrepreneurs are not in a position to create world standard attractive tourism destinations due to the lack of finance.

Finally, there is sufficient government support in the form of policy and current legislation, funding, training and development. The results from the study confirmed that local black entrepreneurs are not aware of this kind of support.

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