CHAPTER 1
ORIENTATION

1. INTRODUCTION
In this chapter, the background to the study is presented. This is followed by the articulation of the problem statement and the rationale why the study of cluster-based economic development strategies is important and relevant in the context of the South African development processes. Finally, the delimitation of the study as well as the way in which the overall research report is structured, are provided.

1.1 BACKGROUND
In 1990 Professor Michael Porter of the Harvard Business School introduced the conceptual framework on competitiveness and clusters in his landmark work, Competitive Advantage of Nations (Porter, 1990a). Since then a burgeoning interest in cluster-based economic development strategies has been engendered among economic development practitioners, policy makers, geographers and donor agencies. Cortright (2006), attributes the phenomenal increase in popularity of and interest about clusters over the last eighteen years largely to the fact that clusters represent a fundamental organizing framework for analysing and understanding regional economics and for developing economic policies. Essentially, clusters mark a shift from a predominant focus on macro-economics to micro-economics, and from an emphasis on an individual firm as a basis of economic development strategies to looking at economic development from the lens of a group of firms and related economic actors and institutions that are located near one another and that draw productive advantage from their mutual proximity and connections (Porter, 1990; Ketels, 2006). This rise of interest in the construct of clusters has precipitated the launching of an assortment of cluster initiatives in different countries across the globe (Ketels, Lindqvist and Sölvell, 2006; Sölvell, Lindqvist and Ketels, 2003).
1.2 PROBLEM STATEMENT

Drawing on global cluster experiences, the South African government and business leaders have adopted industry clustering as a basis for competition in the global market and as part of micro-economic reform trajectory (Mlambo-Ngcuka, 2006; Mkhize, 2006). Consistent with this process, certain industry sectors have been targeted and prioritised for attention in the Accelerated Shared Growth Initiative of South Africa (ASGISA), amongst others: biotechnology; business processes outsourcing, and tourism. Under this policy that focuses on identified clusters called “cluster-specific strategies”, the objective is to encourage the emergence or development of a distinct identified cluster.

Whilst this is laudable, there is a concern, however, that no robust strategic analyses have been carried out to determine the competitive profile of selected sectors and to inform the identification and mapping of potential clusters with specific reference to locational or situational contexts of specific clusters. As a result, the choice in terms of which potential clusters to target becomes quite arbitrary and lacks a guiding analytical framework. Furthermore, there is no evidence that the strategic management implications for establishing and developing clusters have been considered for both public and private sector management. Failure to understand these implications contributes to an absence of an appreciation of the strategic dynamics and challenges that managers need to contend with in the process of cluster development, and the strategic tasks that they need to fulfill in the realisation of cluster formation. This inevitably precipitates an incoherent cluster conceptualisation and the embracing of short term approach without consideration of how clusters can be sustained once they have been established, or at worst, the paralysis of cluster initiatives at their embryonic stages. The shortcomings in cluster identification and mapping processes, have also contributed to a tourism infrastructure investment approach, which is uncoordinated and not properly leveraged on existing resource bases. Finally, the demise of tourism cluster pilot initiatives in Fish River, Khayelitsha, Oliphants Valley and Magaliesberg (The Cluster Consortium, 1999) have also
raised eyes brows about the approach undertaken to drive the pilot clusters. This vividly illustrates that cluster initiatives are bound to die prematurely, unless preceded by painstaking analyses of the determinants of competitiveness as a basis for mapping out what is to be done to drive cluster development on a sustainable basis. This is because developing clusters is much more than mere joint promotion and marketing.

Thus, the purpose of this study is to explore how a potential cluster model can be developed using the tourism industry in KwaZulu-Natal as a case study. In particular, the study looks at processes for identifying, analysing and mapping the cluster; and considers the strategic management implications thereof for public, private business and non-governmental managers falling within the ambit of operation of such a potential cluster. The objectives of this study are as follows:

- To survey trends in terms of the development of industry clusters in literature with the view to discovering how potential clusters have been analysed and developed;
- To use Porter’s Diamond model and the resource-based view approach to conducting an analyses of the competitive advantages of, and the resources and capabilities of, the potential tourism industry cluster in the Province of KwaZulu-Natal;
- To assess the strategic implications for both private business, public and non-governmental managers in terms of establishing the potential tourism cluster and how to address them; and
- To recommend how a potential tourism cluster could be mapped, initiated, developed and sustained.

To achieve the above objectives, this study seeks to address the following research questions:
What are the trends in the study of industry clusters since 1990 and how potential clusters are analysed, mapped and activated?

What are the developments in the tourism industry from a global and South African perspective?

How competitively advantageous is the KwaZulu-Natal tourism industry and why do its resource strengths and capabilities provide the necessary conditions for establishing a potential tourism cluster?

Why will KwaZulu-Natal as a location benefit from activating a potential tourism cluster and how will this cluster be mapped out?

What are the strategic management challenges and implications for activating a tourism cluster in KwaZulu-Natal and how can these overcome?

What is to be done to activate and develop the tourism industry cluster and what will be the role of different actors or stakeholders?

1.3 STUDY RATIONALE

There are many motivations that can be advanced as justification for this study. However, the following are more germane. Firstly, this study contributes towards a common conceptualisation and framework for appreciating the value of and implementing cluster-based economic development strategies in South Africa. This is critical in improving the landscape of productivity, innovation and ultimately the competitiveness of country’s industries at a global level. The development of such a framework ensures that economic development strategies are not formulated in a vacuum, but are informed by and embedded within the complex and changing macro-political realities and economic dynamics facing the country at all levels of government and spheres of business influence. Secondly, this study adds to the discourse on economic development policy in terms of finding solutions to the intractable problems of unemployment, crime and poverty through sustainable economic growth and development.
The third justification is that this study contributes to the growing body of knowledge on cluster-based economic development strategies especially in the context of developing countries. As Ketels et al. (2006:7) opine the structure of cluster initiatives needs to respect the different stages of economic development as developing and transition economies, for example, pose clearly different challenges to cluster-based economic development practitioners, compared to developed economies. In addition, this study also helps to close the gap caused by the dearth of cluster case studies based on the experiences of the African continent in particular, and consequently augments existing studies in developing countries in general. Finally, which is more important, this study addresses one of the fundamental weaknesses in the literature on cluster-based economic development strategies, which is, the absence of research that addresses or identifies strategic management issues that public and private business managers need to contend with in the quest to pursue the implementation of cluster-based economic development processes.

1.4 LIMITATIONS OF THE STUDY

This study is confined to how cluster-based economic development strategies are utilised to cope with the demands and imperatives of competition and globalisation. The focus is the tourism industry in the Province of KwaZulu-Natal. No attempt is made to use cluster-based analysis with the view to conducting an analysis of the whole economy of the Province of KwaZulu-Natal. However, where there are salient issues emanating from the analysis of tourism industry that are of relevance to the whole economy of the region, these are appropriately highlighted with the necessary caveats.

1.5 HOW THE STUDY IS STRUCTURED

For a logical presentation, this study is structured into different chapters as illustrated in Figure 1.1 below.
In chapter 2, a literature review is done on the construct of cluster-based economic development strategies. This review traces the genesis of cluster-based economic development strategies at a conceptual level and surveys contemporary developments in how the concept is articulated in various academic and practitioner literature and its application within the tourism industry. Building on chapter 2, a high level synopsis of tourism trends globally and in South Africa is presented in chapter 3. This is followed by the research methodological approach utilised in the study in chapter 4, which pinpoints specific challenges and limitations that have characterised processes of gathering data. Chapter 5 is about the analysis of data and the overall findings of the study. Finally, the discussion, concluding remarks and recommendations are presented in chapter 6.
CHAPTER 2
LITERATURE REVIEW

2. INTRODUCTION

The function of literature review is to examine what has been published in areas that are similar, though not necessarily identical to, the researcher’s area of investigation (Leedy and Ormrod, 2005). This chapter surveys the state of extant knowledge about the construct of cluster-based economic development strategies in literature. It focuses on the conceptualisation, genesis and typologies of the cluster construct, clusters and economic development and the role which ought to be played by government. Furthermore, it deals with approaches for identification, mapping and analysis of clusters, and processes of establishing, and implementing clusters. Finally, it addresses cluster how theory has been applied within tourism industry by surveying empirical research that has been carried out in this area. It concludes by summarising gaps in existing knowledge.

2.1 CONCEPTUALISATION OF THE INDUSTRY CLUSTER

Cortright (2006) opines that “industry cluster” is a broad concept rather than a precise term, and goes back many years and goes by many different names, including, “industrial district,” “agglomeration,” and others. Despite the ambiguity and lack of specificity regarding the definitions of the cluster phenomenon, the most common definition used in literature today is the one articulated by Professor Porter, who is widely credited with popularising the term “cluster”. Porter (1998:78) defines clusters as “geographic concentrations of interconnected companies and institutions in a particular field” and which are characterised by the following amongst others:

- An array of linked industries and other entities, such as suppliers of specialised inputs, machinery, services and other infrastructure;
Distribution channels and customers, manufacturers of complementary products, and companies related by skills, technologies, or common inputs; and

Related institutions such as research organisations, universities, standard-setting organisations, training entities and others.

Elsewhere, Porter (2000:16) explicates this concept further by stating that:

“A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities. The geographic scope of clusters ranges from a region, a state, or even a single city to span nearby or neighbouring countries...The geographic scope of a cluster relates to the distance over which informational, transactional, incentive and other efficiencies occur.”

Apart from the characterisation of clusters along the geographic proximity distance, other dimensions of distance such as technological distance, skill or occupational distance, market distance and social distance are also considered (Cortright, 2006). In addition, Feser (2004) cites cluster life cycle as one of the dimensions to be considered.

In some empirical studies, clusters have at times been erroneously equated as synonymous to industrial agglomeration (Baptista and Swann, 1998) or industrial districts. There is a difference between the two, which can be explained thus:

Firstly, an industrial agglomeration is a concentration of companies from the same industry that enjoy agglomeration of economies or external local economies; and its basis is that the links between companies, institutions and other agents located geographically close together, generates advantages of scale and scope (Romero-Martínez and Montoro-Sánchez,
In contrast, however, clusters represent more than industrial agglomerations insofar as the latter are clusters without networks.

Secondly, in respect of equating clusters to industrial districts, it must be noted that industrial districts represent the grouping together in one territory of small companies of similar characteristics, with an intent of improving productivity as a consequence of the division of labour among them and are therefore clusters of small and medium-sized manufacturing companies focused on a predominant type of production. Accordingly, all industrial districts are clusters, but not all clusters are industrial districts as the peculiar social and organisational characteristics of the district distinguish it from a cluster (Romero-Martinez and Montoro-Sanchez, 2008).

2.2 THE GENESIS OF CLUSTER THEORY

Without presenting an exhaustive, periodised analysis of how cluster theory evolved, in this sub-section, only major insights are highlighted. Dümmler and Thierstein (2003:3) assert that:

“Geographical clusters are not a discovery of the 20th century. In almost every period of history one can find agglomerations of inter-linked firms within a geographical area. The reasons are various – be it for easy access to natural resources or for being integrated in a country’s science base – the main point is always the same: companies hope to benefit from self-reinforcing advantages that a cluster offer, like positive spillovers, reduced transaction costs and face-to-face contact that facilitate the transfer of tacit knowledge”.

However, it is commonly accepted in cluster literature that the intellectual antecedents of clusters date back at least to Alfred Marshall in 1890 (Porter, 1998). Cortright (2006) provides a fascinating account about the evolution of the cluster concept as emanating from two traditions, namely: The Neo-classical
Economic Tradition and The Social and Institutional Tradition. The neo-classical tradition includes:

- The work of Marshall;
- Regional science;
- Jane Jacob’s work on the role of cities in driving human economies and progress;
- New economic geography that examines the location decisions of firms; and
- Urban and regional economists, who study the spatial aspects of a variety of economic problems, including transportation, housing, labour and other social issues.

On the other hand, the social and institutional tradition includes business organisations; geography and urban and regional planning who through case studies of places such as Silicon Valley, have provided considerable insight into the processes of industry clustering. Nevertheless, it is Porter’s work – The Competitive Advantage of Nations (1990a) that has had a profound influence on cluster theory, drawing on ideas from the two schools of thought. The work of economic development practitioners can be seen as also deriving their influence from earlier works, combined with Porter’s work.

Why firms co-locate, what is it that confers some economic advantage on firms and workers and other economic actors and what causes clusters to be formed over time, are some of the questions that economic practitioners and researchers have been trying to answer. Porter (1990b) argues that competition is a driving force behind cluster development. As one competitive firm grows, it generates demand for other related industries. As the cluster develops it becomes a mutually reinforcing system where benefits flow backwards and forwards throughout the industries in the cluster. Cortright (2006) identifies what he calls seven microeconomic foundations of clusters, namely: Labour Market Pooling, Supplier Specialisation, Knowledge Spillover, Entrepreneurship, Path
Dependence and Lock-in, Culture, Local Demand. These forces are best understood as complementary rather than competing explanations for cluster evolution, because, invariably, many different forces cause industries to locate in clusters. Therefore, the relative importance of each of these forces is likely to vary substantially across clusters. Cortright (2006) argues that relatively little research has looked comprehensively at all these effects and separated their contributions to the formation or growth of particular clusters; and different researchers can examine the same set of facts and reach different conclusions about the key drivers. For example, in the case of Silicon Valley, Cortright (2006) points out that its success is variously attributed by different researchers to defence spending and government procurement; to higher education institutions; to a unique business culture and set of relationships; to visions of an extraordinary academic leader; and to a long and deep history of radio and television industry entrepreneurship.

Like other theories, cluster theory has not been immune from criticism. Martin and Sunley (2003), for example, argue that cluster literature is a patchy constellation of ideas and there is simply insufficient evidence to suggest that economic developers adopt a cluster mind-set. They further argue that economic developers would be better advised to encourage greater productivity among all firms and improve the local business environment. Despite these criticisms, the past eighteen years since the publication of The Competitive Advantages of Nations (Porter, 1990a), has seen a proliferation of literature on cluster-based economic development strategies (Van der Linde, 2003); and a plethora of Cluster Initiatives in advanced countries, developing countries and transition economies countries (Solvell et al., 2003; Ketels et al., 2006). Most observers also concede that in terms of current thinking on clusters, Porter’s work should be used as a starting point or a catalyst to undertake cluster development and not as some kind of manual which has to be rigidly followed. It is also acknowledged that from a policy perspective, different clusters are often highly place-specific and, therefore, public policy towards clusters should be flexible enough to
accommodate varying industrial, institutional and political conditions (Brown, 2000).

2.3 A TYPOLOGY OF CLUSTERS

Clustering implies a continuum and clusters by their very nature are far from homogeneous as they evolve in a constantly changing environment. It is however useful to provide a typology of clusters. This is done without offering a guarantee that a typical cluster will necessarily fall in one of the typologies.

The first typology differentiates between passive and active clustering. According to Nadvi (1999: 1608), in this typology:

“Collective efficiency is defined as having two aspects to it: external economies that clustered agents accrue by virtue of their location, and joint action benefits that arise from deliberate cooperation between local agents. I view external economies as the ‘passive’ dimension of collective efficiency. The term passive describes the nature of the ties required between local agents in order to obtain externality gains. In contrast, joint action is the ‘active’ dimension of collective efficiency requiring deliberate and active cooperation.”

The second typology is about urban and rural clusters. Drawing on experiences in the context of India, Gulati (2002) provides a distinction between what he calls “modern” urban clusters serving the needs of large metropolitan and export markets and “artisanal” rural clusters. The latter caters to more local demands.

Thirdly, there is a typology founded on distinguishing between “incipient” clusters, which are at the early stage of industrial development, usually located in poor, rural hinterland. Within this cluster production is for local markets with simple technologies and labour skills. This is contrasted with the “mature” clusters, which are relatively advanced in terms of technology and skills mix and producing often for global markets and thus vulnerable to global competitive nuances (Schitz and Navi, 1999).
The fourth typology addresses clusters according different levels of emergence of a cluster. Enright (2000) identifies four different levels emergence of a cluster, namely:

- Latent cluster are those with a critical mass of firms in related industries sufficient to reap benefits of clustering, but have not yet developed the level of interaction and information flows necessary to truly benefit from co-location. In such a situation, existing group of firms do not think of themselves as a cluster and resulting in them not thinking of exploring potential benefits of closer relationships with other local organisations owing to many factors. These may be due to:
  - Lack of knowledge of other local firms and individuals
  - Lack of a common enough vision of their future
  - Lack of requisite level of trust for firms to find and exploit common interests

- Potential clusters are categorised as those that have some of the elements necessary for the development of successful clusters, but where these elements must be deepened in order to benefit from the impact of agglomeration.

- Policy driven clusters are those chosen by government for support, but lack a critical mass of firms or favourable conditions for organic development. These tend to be chosen on political grounds than through any detailed analytical process.

- The ‘wishful thinking’ clusters that are policy driven that lack not only the critical mass, but any source of advantage than might promote organic development.

It is pertinent to note that apart from the different levels of cluster emergence as articulated above, like industries, clusters also pass through different stages of metamorphosis or life cycles. That is, clusters emerge, grow, mature and decline.
The fifth typology, known as the Markusen typology is summarised in Table 2.1 below. In this typology three forms of clusters are identified, namely: Italianate, Satellite, and Hub-and-Spoke. The distinction refers to the fact that many clusters do not primarily consist of networked Small Medium Enterprises that are successfully competing on the world market.

Table 2.1: MARKUSEN’S CLUSTER TYPOLOGY

<table>
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<th>ITALIANATE</th>
<th>SATELLITE</th>
<th>HUB-AND-SPOKE</th>
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</table>
| Main Features | - mainly SME, depended on external firm(s)  
- strong specialization  
- strong local rivalry and networking (“cooperation”)  
- trust-based relationships | - mainly SME, depended on external firms  
- often based on cheap labour | - large local firms and local SMEs  
- clear hierarchy |
| Main Strength | - flexible specialization  
- high product quality  
- innovative potential | - Dependency on external actors for sales, inputs and know-how  
- Skills/tacit knowledge | - cost advantage  
- flexibility  
- weight of large firms |
| Main weakness/ vulnerability | - path dependence, slow adaptation to radical change in economic environment or technology | - dependence on external actors for sales, inputs and know-how  
- limited scope for local activities to create competitive advantage | - whole cluster depended on the performance of few large firms |
| Typical trajectory | - stagnation/decline  
- changing internal division of labour, outsourcing of certain activities to other locations  
- emergence of hub-and-spoke structure | - stagnation  
- upgrading, integration of backward/forward steps, offering complete package to external clients | - stagnation/decline (if large firms stagnate/decline)  
- upgrading, changing internal division of labour (large firms outsource activities locally) |
| Promising policy intervention | - Collective action to shape advantages, public-private partnership | - Typical instruments of SME upgrading (training at all levels, technology extension) | - Partnership between large/business associations and public SME support agencies to strengthen SMEs |

Adapted from Meyer-Stamer and Harmes-Liedtke (2005)
The last typology is based on reflecting the different reality from internationally competitive to local survival clusters as detailed in Table 2.2 (Altenburg and Meyer-Stamer, 1990) from Latin American experiences.

Table 2.2: Altenburg/Meyer-Stamer’s typology clusters in Latin America

<table>
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<tr>
<th>SURVIVAL CLUSTERS</th>
<th>FORDIST CLUSTERS</th>
<th>TRANSACTIONAL CLUSTERS</th>
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</table>
| **Main Features** | - mostly micro and small businesses  
- little specialization  
- little interaction between firms  
- competition based on price cutting | - similar to Markusen's hub-and-spoke clusters  
- strong presence of large, vertically integrated companies  
- little functional differentiation  
- little cooperation | - transactional firms not only as lead-firms, but also as first and second-tier suppliers  
- high barriers to entry for national firms |
| **Main Strength** | - income opportunity for persons with no employment opportunities in the formal sector | - cost advantage due to passive advantages of clustering | - part of global networks of highly competitive and productive corporations |
| **Main weakness/ vulnerability** | - low skills level limits upgrading and specialization options | - little or no active advantages of clustering, combine disadvantages of Chandlerian model and clustering model | - Depend on strategic location decisions by head-quarters, factories may surprisingly close down – vulnerable to external shocks |
| **Typical trajectory** | - growth in times of macro-economic crisis  
- caught in a vicious cycle of price-cutting and predatory competition | - slow moving towards more de-verticalization, specialization and collective action | - depends on macro-economic factors (overall stability, exchange rate) |
| **Promising policy intervention** | - skills  
- micro-finance | - stimulate and support movement from passive to collective advantages | - investment promotion to attract complementary companies that sharpen the location profile |

Adapted from Meyer-Stamer and Harmes-Liedtke (2005)
2.4 THE BENEFITS OF CLUSTERS

Clusters develop and are important because they create economic benefits. According to Ketels (2006) the benefits of a cluster come in three dimensions, namely:

First, companies can operate with a higher level of efficiency, drawing on more specialized assets and suppliers with shorter reaction times than they could in isolation.

Secondly, companies and research institutions can achieve higher levels of innovation. This is because knowledge spillovers and close interaction with customers and other companies create more new ideas and provide intense pressure to innovate while cluster environment lowers cost of experimenting.

The third dimension is that the level of business formations tends to be higher in clusters. In this regard start-ups are more reliant on external suppliers and partners, all of which they find in a cluster. These benefits are important for companies in that they create additional value that outweighs the often-higher cost of more intense competition for specialized real estate, skills, and customers at the location, and are thus the reason that clusters emerge naturally from profit-maximising decisions. Similarly, for public policy, higher productivity and innovation in clusters are critical because they are the factors that in the long term define sustainable level of prosperity in a region.

The above views resonate with Meyer-Stamer and Harmes-Liedtke (2005:2) who point out that the advantages and disadvantages of clustering firms reinforce each other. On one hand, they argue that easy availability of inputs and production factors reduces transaction costs and barriers to entry, and rivalry stimulates innovation-driven upgrading contest. This in turn affects local suppliers in that the quality of inputs is increased whilst prices are driven down by local rivalry. On the other hand, they lament the fact the main disadvantage of clusters is that they can overheat. In this sense, intense
competition coupled with a level of customer demand that outstrips supply-side capability, can lead to a bidding-up of material and labour costs, which over time can render the cluster uncompetitive. The socio-economic consequences of industry consolidation can be dire ranging from retrenchments, jobless growth, poverty and crime. For this reason, Meyer-Stamer and Harmes-Liedtke (2005:2) are of the opinion that “…cluster promotion must be balanced with initiatives to promote diversity within the SME sector” (emphasis original).

Another benefit relates to clustering and poverty reduction. Although very little is known about the linkage and relationship between cluster development and poverty, there is an apparently a strong case that clusters lend themselves to a poverty reduction agenda. Nadvi and Barrientos (2004:43) argue that clustering “may not only raise employment and incomes for the poor, it can also have implications for wider notions of poverty – addressing issues of risk, vulnerability, empowerment and participation for poor and marginalised groups. For this relationship to be established, poverty focused strategies would require stronger attention to people within clusters, namely, the entrepreneurs and workers, their households and civil society. Tweaking of cluster initiatives may also be required to promote wider poverty and social development goals within clusters.”

Finally, clusters have been identified as instrumental in stimulating environments for innovative and competitive Small and Medium Enterprises (SMEs). The United Nations Industrial Development Organisation (2004:3) points out that SMEs operating in clusters derive competitive advantage from:

- The proximity to sources of raw material inputs;
- The availability of suitably customised business development services;
- The presence of skilled labour;
- The presence of a skilled labour force;
The vibrant competition among the cluster entrepreneurs, which spurs innovation and increased efficiency.

2.5 PROCESSES FOR IDENTIFYING AND ANALYSING CLUSTERS

The empirical identification of clusters is said to be a prerequisite for analysing their presence across geographies, potential changes in their profile, and their impact on productivity and prosperity (Ketels, 2006). Mayer (2003) and Reid, Carroll and Smith (2007) provide a six-step process (see Figure 2.1) for identifying and analysing clusters and this process is dynamic, iterative, ongoing and involves a variety of key partners.

Figure 2.1: Framework for Cluster Analysis

![Diagram showing the framework for cluster analysis]

Adapted from Reid, Carroll and Smith (2007)

The first step involves the definition of the geographic area or region for which cluster analysis is done. In the second step key partners that are important for a successful cluster analysis are identified particularly to help researchers gain
access to data sources and also because they function as important developers and implementers of cluster-based economic development strategies. The third step involves quantitative analysis. The purpose of this analysis is to identify candidate clusters by undertaking a comprehensive analysis of the region’s economy regarding its employment concentration, wage level, and relative growth. A qualitative analysis is also conducted in step four of the process. A fifth step entails competitive analysis of the cluster to provide information about the relative competitive advantage of a respective industry cluster compared with others in other regions. In the last step economic development policies and actions are devised to capitalise on identified cluster strengths and to address deficiencies. One of the by-products of this process is the development of cluster mapping, which provides an anatomy of various clusters (Porter, 1998). An example of a wine cluster is presented in Appendix A.

2.5.1 APPROACHES TO CLUSTER IDENTIFICATION

Commenting on developments in terms of quantitative and qualitative aspect of the cluster mapping and identification process, Cortright (2006) observes that two broad approaches have emerged, namely: top-down analyses, which rely on quantitative data to deduce the industrial structure of a regional economy; and the bottom-up approach, which looks at the inner workings and inter-firm connections of a particular cluster in a particular location. The two approaches differ in terms of the research questions they seek to address, the research approach they utilise, the principal data they rely on; the methodological approaches; industrial proximation; scope; measures they take into account and the applicability of their findings (see Table 2.3 below for comparison).

First, in top-down approaches the most common approach for identifying and measuring clusters is to examine geographic variations in employment among different industrial sectors using different industrial classifications systems (Cortright, 2006). Furthermore, location quotients have been used by geographers and economists for a number of years to gauge a region’s
specialisation in a given industry. This method essentially compares an area’s employment structure with a larger geographic area such as a state or nation. For example, in a study dealing with the identification of potential cluster regions in the transportation equipment industry of four states in the Midwestern USA, Carroll, Reid and Smith (2007) use location quotients and measures of spatial correlation to delineate the spatial footprint of a cluster.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Top-down</th>
<th>Bottom</th>
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<tbody>
<tr>
<td>Research Question</td>
<td>How Much?</td>
<td>How?</td>
</tr>
<tr>
<td>Research Approach</td>
<td>Quantitative</td>
<td>Qualitative</td>
</tr>
<tr>
<td>Principal Data</td>
<td>Secondary Data</td>
<td>Primary Data</td>
</tr>
<tr>
<td>Methodology</td>
<td>Statistical Modelling</td>
<td>Case Studies</td>
</tr>
<tr>
<td>Industrial Proximity</td>
<td>Classification System</td>
<td>Descriptive</td>
</tr>
<tr>
<td>Scope</td>
<td>Nationwide, Multi-industry</td>
<td>Local, Single-Cluster</td>
</tr>
<tr>
<td>Dominant Logic</td>
<td>Deductive</td>
<td>Inductive</td>
</tr>
<tr>
<td>Measures</td>
<td>Employment, Patents, Wages, Outputs, Sales</td>
<td>Relationships, Institutions</td>
</tr>
<tr>
<td>Findings</td>
<td>Broadly Applicable</td>
<td>Narrowly Limited</td>
</tr>
</tbody>
</table>

Adapted from Cortright, 2006

On the other hand, in bottom-up approaches, basic qualitative methods have shown new light on the development and dynamics of industry clusters. For example, (Porter, 1990a) conducted hundreds of interviews with business executives, labour leaders, academic consultants, bankers, industry experts, and others to document the role of clusters in shaping national competitive advantage. In addition, case studies have been used to produce some of the most evocative and insightful work on industry clusters and the most cited case study is the work of Saxenian (1994) on Silicon Valley.
Notwithstanding the two approaches employed for cluster identification and analysis, a combination of the two approaches is not discounted. In fact, as correctly posited by Feser and Luger (2002), cluster analysis should be treated as a mode of inquiry rather than a narrow technical process. There is no doubt therefore that employing a range of methods and drawing different academic disciplines will help to foster a broader perspective that can help in identifying clusters on a holistic basis by taking into account all their idiosyncrasies.

2.6 CLUSTERS AND THE DIAMOND OF NATIONAL ADVANTAGE

Economic development seeks to achieve long-term sustainable development in a nation’s standard of living, adjusted for purchasing power parity. According to Porter (1990b), standard of living is determined by the productivity of a nation’s economy, which is measured by the value of the goods and services (products) produced per unit of the nation’s human capital, and physical resources. In Porter’s view, productivity, then, defines competitiveness.

How a cluster fares at a specific location? Porter (2000) argues that the sophistication of how companies compete in a location is strongly influenced by the quality of the microeconomic business environment. Some aspects of the business environment, for example, road infrastructure, corporate tax rates and the legal system, cut across all industries. These economy-wide areas are important and often represent the binding constraints to competitiveness in developing countries. Capturing the business environment in a location is a challenging task given a myriad of locational influences on productivity and productivity growth. Porter(1990a:71) suggests that four broad attributes of a nation, individually and collectively as a system, constitute the diamond of national advantage, that shapes the environment in which local firms compete, that promotes or impedes the creation of competitive advantage. Porter’s Diamond Framework has developed into a useful tool for assessing competitive strengths and weaknesses of clusters. The attributes of the Diamond are discussed below (see also Figure 2.2):
**Factor Conditions:** These are nation’s position in factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry. These are grouped into categories such as human resources; physical resources; knowledge resources; capital resources; and infrastructure resources. These resources are further distinguished at two levels. Firstly whether they are basic factors (which include natural resources, climate, location, unskilled and semi-skilled labour and debt capital) or advanced factors, which include modern digital communication infrastructure, highly educated personnel and university research in sophisticated disciplines. For competitive advantage, advanced factors are regarded as most significant as they are scarcer and their development necessitates large and often sustained investments and are difficult to procure globally. The second distinction has to do with whether these factors are generalised or specialised. Specialised factors command more relevance as they provide decisive, sophisticated and sustainable bases for competitive advantage as opposed to generalised factors, which provide only more rudimentary types of advantage. These distinctions
indicate that it is critical that both advanced and specialised factors be created to benefit from the existence of basic and generalised factors. The role of the private sector is of profound importance in creating these conditions.

**Demand Conditions**: This is about the nature of home-market demand for the industry’s product or service. Three attributes of home demand are emphasised: the composition of home demand or nature of buyers’ needs; the size and pattern of growth of home demand; and the mechanisms by which a nation’s domestic preferences are transmitted to foreign markets. The quality aspect of the demand is also extremely relevant.

**Related and Supporting Industries**: The presence or absence of supplier industries and other related industries that are internationally competitive. Competitive advantage in some supplier industries is recognised as crucial in conferring potential advantages on a nation’s firms in many other industries as they produce inputs that are widely used and important to innovation or internationalisation. Porter (1990a) posits that nations are rarely home to just one competitive industry; rather the diamond creates an environment that promotes clusters of competitive industries, that are linked together through vertical (buyer-seller) or horizontal (common customers, technology, channels) relationships. Once a cluster forms, the whole group of industries become mutually supporting and benefits flow forward, backward and horizontally. For Porter (1990a), aggressive rivalry in one industry spreads to others in the cluster, through spin-offs, through exercise of bargaining power and through diversification by established companies. Entry from other industries within the cluster spurs upgrading by stimulating diversity in Research and Development approaches and facilitating the introduction of new strategies and skills. Through the conduit of suppliers and customers who have contact with multiple competitors, information flows freely and innovation diffuse rapidly. Interconnections within the cluster, often unanticipated, lead to perceptions of new ways of competing and new opportunities. The cluster
thus becomes a vehicle for maintaining diversity and overcoming the inward focus, inertia, inflexibility, and accommodation among rivals that slows or blocks competitive upgrading and new entry.

**Firm Strategy, Structure, and Rivalry**: The conditions in the nation governing how companies are created, organised, and managed, as well as the nature of domestic rivalry. The way in which firms are managed and choose to compete is affected by national circumstances. While no nation exhibits uniformity across firms, the national context creates tendencies that are strong enough to be readily noticeable by an observer. Furthermore, even though no one managerial system is appropriate, nations tends to succeed in industries where the management practices and modes of organisation and goals favoured by the national environment are well suited to the industries’ sources of competitive advantage. Similarly, the pattern of rivalry at home also has an influence in the process of innovation and the ultimate prospects for international success. The context for firm strategy and rivalry refers to the rule, incentives, and norms governing the type and intensity of local rivalry. Economies with low productivity are characterised by little rivalry -- most competition, if at all present, comes from imports and local rivalry, if occurring at all, involves imitation (Porter, 2000).

Porter (1990a) acknowledges that even though the four determinants of national advantage shape the environment for competing in particular industry clusters, it has also been established that in the histories of most of the successful industries they studied, chance events also played a role. Chance events are defined as occurrences that have little to do with nation’s circumstances and are largely outside the power of firm or national government to influence. For example, acts of pure invention; major technological discontinuities (biotechnology, microelectronics, for example); discontinuities in input costs such as the oil shocks; significant shifts in world financial markets or exchange rates; surges of world or regional demand; political decisions by foreign governments;
or wars. Chance events contribute in creating discontinuities that allow shifts in competitive positions and can act to nullify the advantages of previously established competitors and create potential that a new nation’s firms can supplant them to achieve competitive advantage (Porter, 2000).

2.6.1 THE ROLE OF GOVERNMENT
Within the debate on competitiveness of nations, the role of government is presented as final variable. Government’s role in national competitiveness is in influencing the four determinants as presented in Figure 2.3, reflects the complete system. The influence of government can either be negative or positive. Porter (1990b) argues that many see government as an essential helper or supporter of industry, employing a host of policies to contribute directly to competitive performance of strategic or target industries; and there is also a free market view that the operations of the economy should be left to the unfettered operations of the market. In this view, by stifling the entrepreneurial process, government regulation reduces the capacity of the market to generate knowledge that could otherwise improve the co-ordinative properties of the supporter of industry, employing a host of policies to contribute directly to cluster development.

In Porter’s (1990b) opinion, both views are flawed and if either view is followed to its logical outcome, would lead to the permanent erosion of a country’s competitive capabilities. He postulates that on one hand, advocates of government help for industry frequently propose policies that would actually hurt companies in the long run and only create demand for more helping. According to Porter (1990b:86), advocates of diminished government presence, on the other hand, ignore the legitimate role that government plays in shaping the context and institutional structure surrounding companies and in creating an environment that stimulates companies to gain competitive advantage. He therefore advances a view that government’s proper role is that of a catalyst and challenger; it is to encourage or even push companies to raise their aspirations and move to higher levels of competitive performance though this process may
be inherently unpleasant and difficult. Government’s role therefore is inherently partial and succeeds only when working in tandem with favourable underlying conditions of the diamond.

FIGURE 2.3: The complete system.

Adapted from Porter, 1990a

Elsewhere, Porter (1998:89) argues that in the context where the microeconomic foundations for competition ultimately determine productivity and competitiveness, governments at both national and state or regional level have a new role to play, which is:
To ensure the supply of high-quality inputs such as educated citizens and physical infrastructure;

To set rules of competition by protecting intellectual property and enforcing anti-trust law so that productivity and innovation will govern success in the economy; and

To promote cluster formation and upgrading and the build-up of public and quasi-public goods with a significant impact on many linked businesses.

In addition, government should facilitate cluster development and upgrading by reinforcing and building on existing clusters rather than attempt to create entirely new ones. This is because, as Porter (2000:26) argues: “New industries and new clusters emerge from established ones as economies develop...Clusters form where there is foundation of locational advantages on which to build”. Unlike in industrial policy where government policies such as subsidies and grants attempt to target and enhance the competitiveness of individual firms and focuses on individual level as a unit of analysis that is narrower than a cluster, in a cluster the focus is to highlight the externalities, linkages, spillovers and supporting institutions that are important to modern competition. By grouping together firms, suppliers, related industries, service providers and institutions, government initiatives and investments address problems to many firms and industries without picking winners and threatening competitions (Porter, 2000).

Accordingly, Porter (1999b) proposes specific principles that government should embrace to play the supportive role for national competitiveness and productivity improvement and provides policy approaches to guide nations seeking to gain competitive advantage.

Government should focus on the creation of advance, specialised factors that are tied to specific industries or industry groups. Mechanisms such as specialised apprenticeship programmes, research efforts in universities connected with an industry, trade associations' activities and private
investment of companies create factors that will yield competitive advantage.

Government should avoid intervening in factor and currency markets as such interventions are often counter-productive and work against the development of the industry.

Strict product, safety and environmental standards should be enforced, because stringent standards for product performance, product safety, and environmental impact pressure companies to improve quality, upgrade technology, and product innovative features that respond to consumer and social demands.

Direct co-operation among industry rivals should be limited. Whilst some degree of collaborative and co-operative research can be allowed, this must not stymie individual firms or group of companies own investment in research and development.

There is also a need to deregulate competition to remove barriers to entry and encourage vigorous domestic rivalry. Similarly strong anti-trust policies especially for horizontal mergers, alliances, and collusive behaviour, should be enforced; and simultaneously, managed trade such as orderly marketing agreements, voluntary restraint agreement or quotas set to divide up the market, must not be allowed.

2.7 CLUSTERS AND ECONOMIC DEVELOPMENT STRATEGIES

This sub-section focuses on clustering and economic development strategies. The emergence of cluster-based economic strategies or policies is proving to be another milestone in the evolution of cluster theory. Ketels (2006) cogently argues that cluster-based economic development should be seen as a new model which is concerned with the improvement of the overall microeconomic foundations of prosperity in a given locational context. For this reason, to improve a location’s competitiveness, all elements affecting the context for productivity and innovation in individual firms and clusters have to be addressed through a
definitive strategy. As part of this strategy four elements have been identified as critical, namely:

- Regions need to activate their clusters;
- Address cross-cutting weaknesses in their general business environments;
- Create an institutional structure to focus on competitiveness beyond the life-cycle of specific administrations; and
- Define an overall understanding of the unique value they intend to provide relative to other locations (Ketels, 2006:19)

It should also be noted that clusters can varying objectives depending on their peculiar contexts. Secondly, there is a caveat, that is, clusters should not be seen as a panacea for all economic development challenges, but to acknowledge that they have a critical role to play in economic development strategies based on a number of reasons. Amongst others, the following reasons are relevant:

- Firstly, they are the critical engine in the overall economic make-up of a region or nation and their impact on the ability of a key cluster to be more productive and innovative has huge positive externalities for the economy at large.
- Secondly, clusters provide a more effective platform to conduct microeconomic policy. Evidence has shown that firm-level policy interventions that are bent on “picking winners” are too costly and tend to distort competition; while policies that are directed at broad sectors or the whole economy have little effect and miss the levers critical to a specific cluster (Porter, 1998,2000; Ketels, 2006).
- Thirdly, clusters can help to identify challenges in the business environment affecting the whole economy, and can be testing grounds for specific remedies addressing them.
- Finally, clusters can help the private and the public sector to adopt a new approach to economic policy making, which is characterised by collaboration, joint action along a wide set of players, whilst at the same
time allowing for innovation and productivity among individual firms to sustain the competitive advantage of the nation or region.

In a new context of economic development policy-making based on clusters, some fundamental shifts occur. The first is that whilst the macro-economic and legal context and functional infrastructure are important, there is an emphasis on microeconomic level policy interventions where the government, companies, universities and other institutions play a role in shaping the business environment. The second shift occurs at the level where government's role is not restricted to a unitary level, but all different types and spheres of government and agencies at all levels of geography have an impact. There is also an appreciation that for cluster-based economic development to develop into a mainstream of economic policy approaches in many countries and regions, it needs to develop a conceptual framework of implementation process that clearly separates discussions about clusters from cluster-based economic policy with a focus on microeconomic policy for enhancing competitiveness (Ketels, 2006).

2.8 PROCESSES FOR DEVELOPING AND SUPPORTING CLUSTERS

Andersson, et. al. (2004:74) stress that many clusters evolve spontaneously and take shape gradually over extended periods of time, with more conscious actions (cluster initiatives) developing at a particular stage when parts of the foundations are already in place. No clusters can therefore be created where they do not exist. Rather policy should focus on creating condition for cluster to emerge, flourish and be nurtured. These conditions are described as follows (Reid et al., 2007):

- A critical mass of industries with a geographic concentration;
- A well defined activity sector;
- The support of local industry champions who believe in collaborative change and are willing to motivate the other members;
- Strong linkages with suppliers and customers;
- Access to research and educational facilities; and
- Supportive labour markets and infrastructures.
Four key categories in the cluster development process and life-cycle are described as follows (Reid et al., 2007):

- **Initiation.** This stage involves scoping – defining the sector and confirming cluster potential and building constituency among potential member companies; conducting both quantitative and qualitative analysis, developing a cluster map and identifying issues and barriers to cluster growth and overall potential growth potential, and engaging and mobilising stakeholders.

- **Incubation.** This involves building trust and identity; and developing a collaborative strategic agenda.

- **Implementation.** This phase involves moving from the collaborative process of determining what to do, to the collaborative actions that will actually result in improvement. It addresses the development of capability to service new markets; securing and commencing first export markets; cluster projects completed with new specialisations emerging; and developing a strategic partnership for economic development processes.

- **Improvement.** This phase recognises that cluster development process is an organic continuous process, and it is important to keep scanning the cluster environment or community for new issues and trends. This involves cluster leaders supervising market growth, developing social capital by establishing forums for the community to continue working together on important issues, fighting complacency within the cluster and reaching out to involve newcomers to broaden and deepen the value chain as well research and development.

Similarly, Andersson et. al. (2004:77-81) state that irrespective of the entry point, the general phases of the clustering process are generally the same. In a stylised sense, they amount to:
Building social capital and creating trust;
Developing strategic linkages;
Defining a strategy and vision; and undertaking cluster action.
The degree to which these are formalised varies in practice, and the way they are handled will also be influenced by the specific actors in charge. What these processes entail is discussed below.

**Building social capital and creating trust**
Social capital and trust refer to various “soft” but fundamental features of the organisation of a region, such as the presence of shared norms and values that facilitate coordination and cooperation among individuals, firms and sectors to their mutual advantage. Understanding innovation as interactive learning implies that co-operation is necessary to make firms and regions competitive. Therefore, building social capital is a key instrument in promoting cooperation within firms, in clusters of firms and in regions. Generally, building social capital and trust is a first step is to prepare the ground for the cluster initiative. In this regard, the communication process is begun by establishing awareness of potential mutual benefits from clustering among the key relevant actors. It recommended that an Independent Facilitator of the Cluster (IFC) who understands the industry and is respected by parties in the cluster be appointed to facilitate cluster formation.

**Developing strategic linkages**
The next phase of the process involves defining and developing strategic linkages. The initial step can be thought of as formalising linkages. It is typically at this point that the Cluster Initiative is formalized, which may occur through the establishment of an IFC. The actors may obtain structured routines for interactions, and form their cluster vision and strategy. In many cluster initiatives, the development of cluster linkages occurs through the process of a competence audit – mapping the competitive advantages of the region, identifying the competencies of the participating companies/organisations, and determining the gaps that exist. This competence audit aims:
• To provide an enhanced overview of core competencies to improve competitiveness through a bidding process for local companies, or to stimulate the creation of local relationships among firms, universities, research institutes, and related industries with the intention of stimulating economic growth.

• Can serve as a means to overcome networking problems among firms and guide potential partners to more quickly identify co-operation possibilities for example, in areas such as R&D, marketing, and procurement.

• Can also serve to connect the IFC with firms within the cluster.

• Finally, it can be used by individual firms as a sales argument that allows them to display their enhanced network potential to customers.

The degree of formalisation of the competence system can vary. In organic clusters, informal links between actors in the cluster often make the development of formal competence systems unnecessary; whereas in new clusters, the explicit mapping of competences can be a required element to establish the value of clustering.

🔍 **Defining a strategy and vision**

Through structured processes, cluster initiatives can develop a shared vision, goals, and strategy. A regional analysis can help structure the “starting point” for the re-engineered cluster, helping an already-established cluster initiative to transform or innovate. During this third phase, the importance of quantitative and qualitative measures comes into play. It is useful if goals and the baseline for possible future evaluation are put in place at this stage. An IFC, for instance, will have more of a sense of direction if the appropriate coverage and scope for the evaluation process, as well as clarity regarding which kind of metrics are to be used, has been defined. Further, for a cluster initiative to be viable, it must become self-sustainable. After key competencies have been identified, strategic analysis forms the next natural stage. A number of methods can be applied both to estimate the current situation and to project possible future developments. Available methodologies include interviews with knowledgeable experts, Delphi
surveys, critical lists and expert panels, workshops, brainstorming, mind mapping, trend extrapolation, simulation modelling, cross-impact analysis, system dynamics, roadmapping, relevance trees, morphological analysis, on-line methods, scenario workshops, SWOT analyses, etc. A method that has become increasingly popular is Foresight exercises, which tend to involve networks of knowledgeable agents and key stakeholders.

Organising a foresight exercise in a participatory manner may be useful for gathering knowledge from, and reflecting on the insights and special interests of the cluster borne by the people who will be critically engaged in its interactions. Bringing together decision makers in a process that develops anticipatory intelligence, when applied to a concrete case of cluster development, can provide information for strategic decisions, as well as facilitate commitment and engagement among the actors involved. It can also contribute to building a milieu that is more robust to changing circumstances and even allows for anticipating and preparing for changes in circumstances.

Undertaking action

The three phases discussed above serve to prepare the implementation of a cluster action plan by creating a common platform and setting out a strategic direction. To carry out the different objectives formulated in the strategic phase, a number of cluster actions will be required. The cluster actions in Table 2.4 above typically serve several purposes and may be undertaken throughout the life cycle of a cluster. They are applied in order to strengthen the cluster initiative itself, as well as to improve the competitive environment surrounding it.

2.9 APPLICATION OF PORTER’S DIAMOND MODEL IN THE TOURISM CLUSTER CONTEXT

This sub-section reflects on the application of cluster development theory within tourism using specific case examples drawn from literature. Most cluster studies focus on the manufacturing industry, however, in recent years the services industry is now under spotlight. This dominance still persists despite the growth
of the service sector and its future potential. Porter (1990a:239) in fact acknowledges that the most visible form of international competition is in manufactured goods, yet services have long represented a significant proportion of most national economies. According to Porter (1990a), the term services encompasses a wide range of industries that perform various functions for buyers but do not involve, or only involve incidentally, the sale of tangible products.

Table 2.4: Cluster Action Plan

<table>
<thead>
<tr>
<th>Firm Growth</th>
<th>Inter-actor network creation</th>
<th>Cluster Formation</th>
<th>Factor Markets</th>
<th>Cluster Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New Technology</strong></td>
<td>- Organise seminars, meetings, workshops to facilitate the diffusion of technology within the cluster. - Establish centres to develop and test new production technologies and processes. - Create an observatory of technical trends. - Establish hubs for technology transfer. <strong>Firm Growth</strong> - Support cluster-based incubators. - Encourage entrepreneur networks. - Provide business assistance. - Launch marketing and image campaigns to attract new firms.</td>
<td><strong>Networking</strong> - Form cross-agency cluster teams. - Foster firm networks. - Foster the sharing of personal networks. - Facilitate external connections. Commercial Cooperation - Form export networks. - Compile market intelligence. - Coordinate purchasing. - Establish technical standards. Joint R&amp;D Projects</td>
<td><strong>Cluster Analysis</strong> - Conduct a competence audit. - Undertake a strategic study &amp; analysis. - Model and amplify systematic relationships. - Conduct benchmarking analysis. - Organise and disseminate information in the cluster. Actions for Engagement and Service Delivery - Create or formalise IFC and communication channels. - Improve firms’ cluster awareness. - Facilitate interaction between different areas of government and cluster actors Cluster Marketing - Create brand for region. - Actively promote cluster. - Target inward investment.</td>
<td><strong>Specialised Labour Supply</strong> - Provide management &amp; technical training. - Use clusters as context for learning. - Establish cluster skill centres. - Support regional skills alliances. - Attract talent to the region. <strong>Specialised Capital Markets</strong> - Prioritise investments in cluster projects. - Give incentives or set aside funds for multi-firm projects. - Promote joint financing, the creation of special investment funds, or the provision of credit guarantees.</td>
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<tr>
<td><strong>Source:</strong> Andersson et. al (2004)</td>
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The increase in the proportion of cluster research focusing on tourism stems from many reasons (Nordin, 2003; Jackson and Murphy, 2006; Cuhna and Cuhna, 2005):

- First, tourism is predicted to be one of the few industries that will continue to generate job opportunities in future;
- Second, to many countries and regions tourism already constitutes an important source of income and employment and a lethal weapon against frontiers of poverty;
- Third, it has a potential to foster regional economic development to redress the disparities between rural and urban regions and to ensure an equitable distribution of economic benefits; and
- Finally, owing to its potential for growth and due to the fact that it is a product that can only be consumed in loco, tourism takes on an important role as a strategy for local development.

Tourism as an integrated system in a limited geographic area, invokes the concept of a destination. Nordin (2003:17) argues that destinations like clusters arise naturally, but may need to be developed to reach their fullest potential. The course of development for destinations may be influenced by a number of factors, such as strategy plans, government support and investment in infrastructure or joint marketing. She further asserts that the interdependence of attractions, services, transport, information and promotion, highlights the need for collaboration as it is evident that companies located in a destination have a lot to gain from being located in close proximity by forming a tourism cluster. This argument is strengthened by the fact that tourism industry clusters are very unique in that they have strong linkages to other closely related and supporting clusters, for example, outdoor equipment; food and beverages, etc.

For Cuhna and Cuhna (2005: 48), the concept of cluster is suited to specific characteristics of tourism activities because the tourism product interacts with local base (physical space and social actors), leading to joint actions of
interrelated enterprises with great power to create conglomerates. Furthermore, other characteristics define the cluster potential of tourism activities, namely:

- The complementarities and interdependences among the parts of a tourism conglomerate occur through the interaction and organization of the local actors; and
- The necessary integration of culture, economy and nature results in actions and interventions which come true in a systemic way, and the power of attraction depends on the differing potential of the tourism product and the supporting services.

Like in all cluster development processes, it is crucial that the most fundamental step be observed, which is that the tourism cluster be identified accordingly. The focus is to define, identify and delimitate the tourism cluster. Two products arise out of the cluster identification process.

The first products generated by this level of information are:

- The role and importance of each actor and agent in the cluster;
- The relations and their intensity among the actors; and
- The degree of complementation among the internal cluster activities in addition to the gaps and lack of activities in the cluster.

The second products are:

- The mapping of the tourism cluster, including the actors, the knots and the fluxes (Cuhna and Cuhna, 2005);
- The externally demanded activities are indicated, which can be offered internally; and
- The evaluation of the potential for development of the intra-cluster.

For tourism cluster, mapping how vertical and horizontal integration and linkages are articulated is often analysed. This therefore helps in identifying core services of the cluster, namely: transport; attractions and events; hotels and accommodation; and others such restaurants. Secondly, the individual travel
organizers and intermediaries and their roles are also highlighted. This covers travel agents, tour operators, tour guide and information, and incoming agents and they way they relate to the consumer. The role of government and other agencies such marketing and promotions agencies, research and training institutions is also factors as part of the analysis.

2.9.1 TOURISM CLUSTER DIAMOND ANALYSIS
Several studies have sought to apply Porter’s Diamond Model to assess the strengths and weaknesses of tourism clusters. For illustration of how the Diamond Model has been applied in tourism studies, three studies are summarised, namely: Tanzania; China; and Trinidad and Tobago (Jackson, 2006; Nordin, 2003; Yao, Krutzinna and Chen, 2006; Beye, Isoun, Shariff and Tzemach, 2006).

2.9.1.1 FACTOR CONDITIONS
Apart from five categories of endowment factors identified by Porter (1990a), namely: human resources, physical resources, knowledge resources, capital resources and infrastructure; Nordin (2003) quotes Inman as having acknowledged that in tourism, the basic factors enabling a country’s development consist of natural, archaeological, and cultural resource endowment. Crouch and Ritchie (1999) also state that in a tourism context it seems appropriate to add historical and cultural resources as an additional significant resource category and to expand the infrastructure category to include tourism superstructure. Tourism superstructure is comprised primarily by accommodation facilities, food services, transportation facilities and the “must see or must do” attractions of the industry. A country or region’s competitiveness, however, is said to lie rather in the quality of specialised factors valuing its inheritance above countries with similar legacy. Human resources trained in tourism, infrastructure designed to provide access to natural resources, suitable capital markets available to finance long-term tourism projects, adequate citizen’s safety level, and coverage of public sector support services, are examples of this type of specialised factors. Factor
endowment and specialisation need to be constantly improved and five areas of importance are identified as (Pechlaner, Smeral and Matzler, 2002):

- Training centres for new tourism workers;
- Relevant institutions for trend/innovation research;
- Methods for continual endowment and improvement of production factors (so-called factor creating mechanisms);
- Institutions for knowledge transfer and implementation; and
- Innovation-friendly general conditions.

In the context of Tanzania, it has been found that the tourism cluster depends heavily on favourable endowment factors such as natural beauty, wildlife and archaeological history. On the other hand, human capital is unfavourable as the country depends on a small educated business class. The majority of cluster labour is poorly educated and low-skilled. Industry educational institutions have been found to be of low quality and have not succeeded in training students to meet the needs of a premium-positioned cluster. Similarly physical infrastructure particularly roads and energy are unfavourable and require substantial investment and upgrading. Domestic capital for further cluster expansion is limited and although FDI has been mobilised this was inadequate to meet the growth needs of the cluster. Notwithstanding these negative factor conditions, the country capitalises on its history of political stability and high perceptions of safety.

In the case of Trinidad and Tobago it has been found that they rank in the middle of Caribbean competitors when evaluated along eight indices of competitiveness such as human resources, and social index. However, the cluster itself has not been well positioned to attract skilled labour due to:

- Relatively low wages for local workers;
- The stigma attached to the industry; and
- Lack of training programmes to meet international standards.
Challenges in terms of a history of limited investment in tourism physical infrastructure has resulted in a stock of low quality hotels, inadequate marinas for yachting, low quality conference facilities and limited air travel access into the country and between the two island. In addition the challenge of improving health and safety especially in respect of local policing was also observed.

For China’s Western regions, natural advantages identified include spectacular scenery and environmental attractions such as the Three Gorges on the Yangtze River; the oasis city of Urumqi in Xinjiang; migratory birds and the only known remaining giant panda habitat and the Jiuhai-gou-Huanglong world heritage site in Sichuan. There are also cultural attractions such as the Terracotta Warriors in Shaanxi; the Mausoleum of Ghengis Khan in Inner Mongolia; mysterious Tibet and historical and archaeological sites and museums. The study also observed that factor upgrading in terms of transportation infrastructure – expressway creation, railway networks connecting to major Western cities to major coastal cities – has been substantial and this involved joint ventures with foreign companies. International hotel chains such as Hyatt, Sheraton and Holiday Inn are now widely located throughout the western provinces. Challenges remain however in terms of access from the coastal gateways and the expense involved with travel due to the distance between attractions in the west.

2.9.1.2 DEMAND CONDITIONS
Both domestic and foreign tourists visiting the country contribute to local demand. According to Smeral (1998) “open-minded and sophisticated tourists and consumers are important factors as anticipating consumer needs requires recognising new trends and production possibilities early on. Quality-oriented tourists function as a quality control and can significantly contribute to competitive advantage.

Trinidad and Tobago is experiencing tourism levels in excess of 400 000 tourists per annum. However, demand conditions are low and most of the arrivals are
categorised as Diaspora tourists from the US, UK, Canada and other CARICOM islands who tend to visit friends and relatives and thus do no generate enough demand for tourism services. Secondly, regional travellers from CARICOM countries are typically lower to middle income countries and tend to spend less and represent less sophisticated demand than the US and European tourists. Thirdly, domestic visitors though significant, represent a less sophisticated category of the market.

In the case of Tanzania it has been found that demand conditions are generally positive because of the way the country is perceived in the region as relatively stable and peaceful. However, its visitors’ numbers were growing at commensurately slower rate than Kenya. This picture may have been slightly offset by the ethnic violence that followed the December 2007 elections in Kenya.

China has a contrary picture of demand condition. The opening of the Chinese economy since 1978 has heralded increases in prosperity and greater mobility of the Chinese population. This has led to increases in opportunities for outbound tourism and an associated increase in domestic tourism both in quantitative and qualitative terms. There is also a concomitant increase in the international demand for tourism to China and hence the improvement of China’s ranking as tourist destination from 34th in 1980 to 5th rank in 2002.

### 2.9.1.3 CONTEXT FOR FIRM STRUCTURE AND STRATEGY

Jackson (2005) postulates that while the model of business clusters is matured in the capitalist system, there were specific features of the model that are theoretically consonant with China’s *guanxi renqing*, local collectives and the “socialist market system”. In China, while there has been a movement to a market economy most tourism businesses such as hotels are predominantly state-owned at about 42%. Similarly the existence of collectives as an accepted organisational norm in China makes it possible for consonance of business
clusters with the model of local collectives which may be exploited to the
advantage of clusters and to broaden tourism industry system.

Trinidad and Tobago has few trade barriers. In its quest to attract foreign direct
investment in energy and related sectors, government has been forced to
rationalise the country’s tax system to institute FDI-friendly policies. The positive
context factors are counterbalanced by fairly significant negative attributes such
as low levels of competitive advantages; weak relations between pay and
productivity; lax anti-monopoly legislation and ineffective promotion of
competition. In the case of Tanzania, the cluster is open to foreign ownership and
it is estimated that about 60% of hotels are internationally owned. Less promising,
however, issues of the lack of framework for domestic operators to obtain credit
and a legacy of corruption in the industry are negative.

2.9.1.4 RELATED AND SUPPORTING INDUSTRIES
Although the presence of related and supporting industries varies across the nine
provinces in case of China, they are generally endowed with heterogeneous
industries such as accommodation, food and beverages, man-made and natural
attractions, festivals, agriculture and horticultural enterprises, etc. Universities
also offer programmes in tourism and hospitality. The linkages at a micro-level
are very weak. This study has also found that support for greater cooperation
between tourism businesses and cluster formation at an academic and industry
leadership level is widespread. However, a concern has been raised that at the
level of management of individual businesses there appears to be a lesser
appreciation of the value of horizontally linked local clusters with strong
leadership supporting linkages between businesses. Evidence also points that
firm structures are likely to hamper cluster development in the medium term. This
is because the industry is still dominated by vertically constructed state,
nationally and internationally owned businesses.
There are few supporting industries in Tanzania. Other than agriculture, transport -- a critical supporting industry -- is poorly developed and slows cluster growth. Other potential supporting industries such as mining, gems, game hunting and handicrafts are underdeveloped. In contrast, Trinidad and Tobago has been found to have a sophisticated financial market and a strong banking sector, which has benefited from the energy sector. Air travel to and within T&T has not received the attention it requires and airport security needs improvement to allow more flights to and from USA and Europe. The core components of the tourism cluster encompass accommodation, restaurants, air travel and events/activities. Furthermore, the next tier of tourism related services comprises retail, transportation services, marine services and entertainment. The cluster is also supported by various institutions for collaboration including government agencies (Tourism Development Corporation), private sector associations, research and educational institutions.

2.9.1.5 CHANCE AND GOVERNMENT
Chance and government are two additional variables which influence the performance and competitiveness of tourism clusters. Cataclysmic chance events including the outbreak of SARS, and increasing terrorist activity especially in the wake of 9/11 in the USA, and the Tsunami, have had a deferential impact on tourism in different parts of the world. Paradoxically, such chance events may have resulted in negative tourism outcomes for some countries, whilst other countries have immensely benefited from the adverse circumstances of others. Equally, fluctuations in terms of exchange rates have effects on tourism. For example, the decline of the rand against major currencies has resulted in increased volumes of international tourists in South Africa, because of the perceived value for money for tourists with stronger currency markets.

As Nordin (2003) affirms, tourism is not solely under the control of commercial enterprises. Governments play key roles by investing, building and managing tourism development. This role has grown in importance because of the
recognition of the role tourism plays in fostering national economic growth and job creation. Government’s role can harm tourism especially where safety and security concerns are not addressed, as well as through mismanagement of the economy and other regulatory imperatives. On the other hand, government can also help to improve tourism clusters by adopting clearly defined policy position; and through investment in tourism infrastructure and improvement of factor conditions such as education and research and development. In this regard, public-private partnerships have proved to be extremely important in enhancing both destination and cluster competitiveness.

2.10 CLUSTER RESEARCH: EMERGING CONCLUSIONS

In a meta-study undertaken by Van der Linder (2003) it has been found that since 1990, studies and reports on clusters have exponentially grown to 370 bibliographical entries. This includes 185 research or fact-oriented documents, 129 cluster initiative, and cluster-oriented books and articles. In the same study, information of 833 clusters in 49 nations of which 25 are in developed nations and 24 in developing nations has also been compiled.

Cluster initiatives tend to evolve over time and thus they are more of a process than a fixed tool or well defined product. Sölvell et al. (2003) observe that there is general agreement that cluster initiatives must be highly sensitive to local circumstances and for this reason, not only must cluster activities be adapted to the local resource base, but also the organisation and implementation of cluster initiative itself must also build on local political and industry traditions. Similarly, Ketels et al. (2006) in a comparison of cluster initiatives across the globe, observe the following cluster dynamics amongst others:

- In developing and transition economies economic policy is typically centralised to the national level, and there is usually little policy support relating to competitiveness and clusters, and donor-initiated cluster
initiatives take place where the national policy support for such effort is lowest;

In developing and transition economies there is usually less trust among companies and between companies than in advanced economies, hence donor-initiated cluster initiatives predominate in such social contexts;

In developing and transition economies cluster initiatives usually have other types of objectives than in advanced economies, for example, there is more emphasis on increasing value-added and exports and less emphasis on innovation and business environment improvement;

Cluster initiatives in developing economies usually target basic industries such as agriculture, furniture and textiles as opposed to high-tech industries as biotech and ICT in advanced economies, and a mixture of targets in transition economies;

In all economies, cluster initiatives target clusters that are relatively strong and the main difference across levels of economic development is that the competitive position is stronger and the innovative capacity is higher in advanced economies, in developing and transition economies donor target clusters that are less developed than those targeted by other initiators;

A dominating role of government that leaves business on the sidelines of cluster initiatives is a major concern in advanced economies and in developing and transition economies the challenge is that while business tends to be involved, government often lacks capacity to do its part, hence donor step in but they lack the strategy of how to involve government over time.

Staber (2007) argues that clusters and cluster development strategies are an evolving field, and for this reason, more empirical studies are needed to throw light about the efficacy of cluster-based economic development. Secondly, there is a gap in research on clusters in that none of the studies on cluster address the issue of strategic management implications of cluster development for managers whether in the public sector or private sector or non-governmental sector
impacted by that particular cluster. This lacuna in cluster research is regretted as it ignores the fundamental challenges that permeate all clusters as strategic management input is critical not just during the formative stages of the cluster, but also throughout its different life-cycles. Strategic management and leadership are in the final analysis very central to cluster conceptualisation, mapping, analysis and development or redevelopment.

By way of conclusion, this chapter has provided an in-depth review on cluster literature to assist in meeting one of the objectives of this study, namely, to determine the existing knowledge about cluster developments. The next chapter builds on the literature review, and is concerned with the analysis of the tourism industry as a whole from the global and South African perspective. It also outlines the prognosis for future growth.
CHAPTER 3
SYNOPSIS OF THE TOURISM INDUSTRY

3. INTRODUCTION

The focus of this chapter is to provide a high level synopsis of the tourism industry from a global and South African perspective. It builds on the previous chapter which sought to provide a review of the state of knowledge about clusters and the application of the cluster construct within tourism. The aim is to provide a context for exploring the potential of developing a model of a tourism cluster in KwaZulu-Natal, which is the main objective of this study. In particular, it looks at tourism growth patterns, competitiveness and challenges that lie ahead from global and South African perspectives.

3.1 GLOBAL GROWTH TOURISM OUTLOOK

Tourism is the world’s largest and one of the fastest growing industries and as such faces exciting opportunities and tough challenges in a fast-changing and increasingly competitive global market. A growing tourism industry contributes to employment, raises national income, and can improve the balance of payments. The sector is thus an important driver of growth and prosperity. In particular, in the context of developing countries, tourism also plays a pivotal role in reducing poverty. Historically, markets have been nationally or regionally based— but this is changing. Amongst others, the following drivers are responsible for the changes:

- rising incomes permitting long distance travel by families;
- rising business travel;
- innovations in transportation and marketing;
- and rising products standards around the world.

The year 2007 is said to have experienced a phenomenal growth rate of +6 percent in tourism compared to 2006. According to the United Nations World Tourism Organization (2008a), the year 2007 exceeded the expectations for
international tourism with arrivals reaching new record figures close to 900 million. In other words, 52 million more international arrivals were recorded than in 2006. Of the additional 52 million worldwide arrivals, Europe received some 19 million and Asia and the Pacific 17 million. The Americas was up by around six million, Africa by three million and the Middle East by five million. All the different regions registered increases above their long-term average, with the Middle East leading the regional growth ranking (+13%), followed by Asia and the Pacific (+10%), Africa (+8%), the Americas (+5%) and Europe (+4%). The results confirm both the sustained growth path of the past years and the resilience of the sector regarding external factors. This development has been supported by a strong world economy, which has experienced its longest period of sustained growth for more than two decades.

This growth rate has generated tourism receipts in excess of US$682.7 billion recorded in 2006. The World Travel and Tourism council (WTTC) (2008) estimates that, from direct and indirect activities combined, the Travel and Tourism sector now account for:

- 10.4 percent of the global Gross Domestic Product (GDP);
- 12.2 percent of world exports;
- 9.5 percent of world investment;
- 234 million jobs; and
- in 2007 it generated in excess of US$7 trillion in revenues, a figure that is expected to rise to over US$13 trillion over the coming decade.

The confidence for 2008 remains high, although this perception might deteriorate. This is because the economic outlook worldwide have shown increased volatility and confidence has weakened in some markets due to uncertainty about the subprime mortgage crises and economic prospects, in particular for the USA, alongside global imbalances and the volatility oil prices. International tourism might be affected by this global context. But based on past experience, the sector’s proven resilience and given the current parameters, the UNWTO does not expect that growth will come to a halt. As a matter of fact, the first results for
2008 suggest the relative stability of international tourism. In spite of uncertainties posed by the global economy, international tourist arrivals grew at around 5% between January and April 2008, compared to the same period of 2007 (UNWTO, 2008b). Prospects for international tourism remain positive, although the overall economic climate has deteriorated since the last quarter of 2007, reducing consumer confidence and putting pressure on household spending and travel budgets.

UNWTO (2008) expects tourism demand to grow, but at a slower pace. The current economic imbalances, in particular the rising food and energy prices and the turmoil in the US financial sector are very likely to influence tourism spending. It is clear however that specific demand shifts as determined by disposable income, travel budgets and confidence are likely to vary from country to country, and from region to region, depending on their local economies, labour markets and consumer confidence. On the whole, though consumer confidence indices show an increasing degree of uncertainty, international tourism has proven to be resilient in similar circumstances and has coped with various types of shocks, security threats and geo-political tensions that proved challenging in the past.

Thus, the long-term tourism outlook is also extremely buoyant. The long-term forecast of the UNWTO in terms of its 2020 Vision (UNWTO, 2008) anticipates that international arrivals will reach about 1.6 billion by the year 2020. Of these worldwide arrivals in 2020, 1.2 billion will be intraregional and 378 million will be long-haul travellers. The total tourist arrivals by region shows that by 2020 the top three receiving regions will be Europe (717 million tourists), East Asia and the Pacific (397 million) and the Americas (282 million), followed by Africa, the Middle East and South Asia.

Overall, East Asia and the Pacific, Asia, the Middle East and Africa are forecasted to record growth at rates of over 5% year, compared to the world average of 4.1%. The more mature regions Europe and Americas are anticipated
to show lower than average growth rates estimated at about 3.1% and 3.8% respectively (see Figure 3.1 and Table 3.1 below).

Figure 3.1: Tourism 2020 Vision

![Graph showing tourism growth rates](image)


Table 3.1: Forecasted Tourism Growth Rates

<table>
<thead>
<tr>
<th>Region</th>
<th>Base Year 1995</th>
<th>Forecasts 2010</th>
<th>Forecasts 2020</th>
<th>Market share (%)</th>
<th>Average annual growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>565</td>
<td>1006</td>
<td>1561</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>20</td>
<td>47</td>
<td>77</td>
<td>3.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Americas</td>
<td>110</td>
<td>190</td>
<td>282</td>
<td>19.3</td>
<td>3.8</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>81</td>
<td>195</td>
<td>397</td>
<td>14.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Europe</td>
<td>336</td>
<td>527</td>
<td>717</td>
<td>59.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Middle East</td>
<td>14</td>
<td>36</td>
<td>69</td>
<td>2.2</td>
<td>6.7</td>
</tr>
<tr>
<td>South Asia</td>
<td>4</td>
<td>11</td>
<td>19</td>
<td>0.7</td>
<td>6.2</td>
</tr>
</tbody>
</table>

Despite increased downside risks, it remains likely that the slowdown in the world GDP growth will be limited because rapidly expanding emerging economies are recognizing the development potential of the tourism industry and investing accordingly (UNWTO, 2008). Furthermore, rapid economic growth in countries is boosting incomes and creating an entire new range of customers where international travel is now an option. The easing in monetary policy by central banks is also expected to lessen the pressure on economic growth.

The projected growth rate of tourism in the developing world comes as a welcome relief for those countries and their peoples. The World Tourism Organization provides several reasons that make tourism an especially suitable economic development sector for less developed countries. These include the following (World Tourism Organization, 2008:3)

- Tourism is consumed at the point of production; the tourist has to go to the destination and spend his/her money there, opening an opportunity for local businesses of all sorts, and allowing local communities to benefit through the informal economy, by selling goods and services directly to visitors;
- Most less developed countries have a comparative advantage in tourism over developed countries. They have assets of enormous value to the tourism industry - culture, art, music, natural landscapes, wildlife and climate, including World Heritage Sites. Visits by tourists to such sites can generate employment and income for communities as well as helping in the conservation of cultural and natural assets;
- Tourism is a more diverse industry than many others. It has the potential to support other economic activities, both through providing flexible, part time jobs that can complement other livelihood options, and through creating income throughout a complex supply chain of goods and services;
- Tourism is labour intensive, which is particularly important in tackling poverty. It also provides a wide range of different employment
opportunities especially for women and young people and from the highly skilled to the unskilled, and generally it requires relatively little training;

- It creates opportunities for many small and micro entrepreneurs, either in the formal or informal economy. It is an industry in which start-up costs and barriers to entry are generally low or can easily be lowered;

- Tourism provides not only material benefits for the poor but also cultural pride. It creates greater awareness of the natural environment and its economic value, a sense of ownership and reduced vulnerability through diversification of income sources;

- The infrastructure required by tourism, such as transport and communications, water supply and sanitation, public security, and health services, can also benefit poor communities.

3.2 SOUTH AFRICAN TOURISM LANDSCAPE

The South African tourism landscape is a complex web and tapestry of different actors, which coalesce around government, the tourism industry itself and non-governmental organisations (see Figure 3.2) (Tourism Business Council of South Africa, 2008). According to government the central policy and regulatory roles is played by the Department of Environmental Affairs and Tourism (DEAT) and the Department of Trade and Industry (DTI). Each of these departments has specialised agencies dealing with different aspects of tourism. For example, South African Tourism is responsible for international marketing of South Africa as a destination, whilst Tourism Grading Council of South Africa (TGCSA) is responsible for establishing a framework for grading and ensuring a quality of standards for all tourism establishments. On the other hand, the Industrial Development Corporation (IDC) is responsible for funding tourism infrastructure products. There is also THETA (Tourism, Hospitality and Sport Education and Training Authority), which is the Sector Education and Training Authority (SETA) established under the Skills Development Act (No 97 of 1998) [the Skills Act] for the Tourism, Hospitality and Sport Economic Sector. A SETA’s main function is
to contribute to the raising of skills - to bring skills to the employed, or those wanting to be employed, in their sector.

**Figure 3.2: South African Tourism Landscape**

The tourism industry is constituted by the Tourism Business Council of South Africa (TBCSA) which is the voice of the business sector involved in the tourism industry and was established in February 1996 by leading tourism businesses. Its primary purpose is to engage with all stakeholders in developing macro strategies that create an enabling environment for tourism development. A host of Industry Association also exist. For example, the Guest House Association of Southern Africa; Bed and Breakfast Association of South Africa; Federated Hospitality Association of South Africa, (FEDHASA); Southern African Vehicle Rental and Leasing Association (SAVRALA); The Southern African Association for the Conference Industry (SAACI); and SABOA a trade association representing the interests of bus operators in South Africa. Luxury long distance intercity and tour bus operators are represented by the Coach Operators Association of Southern Africa (COASA), which in turn is affiliated to SABOA. Finally, there is RASA, a non-profit organisation that was formed to act in the
interest of the South African Restaurateurs and to ensure that there was a lobby and a voice to speak on his/her behalf.

Under the non-governmental sector, different organisations also exist. However, the Tourism Enterprise Partnership (TEP) and Fair Trade in Tourism South Africa (FTTSA) are amongst the most prominent. TEP is the initiative of DEAT and the Business Trust to drive the development of robust SMMEs and employment creation. FTTSA was initiated by the World Conservation Union (IUCN) as a project in 2001 and has since become an independent organization. The organization encourages and publicises fair and responsible business practice by South African tourism establishments and does this through the FTTSA Trademark.

The above organisations operate in a context of international, continental and sub-regional milieu. The World Tourism Organization (UNWTO), a specialized agency of the United Nations, is the leading international organization in the field of tourism. It serves as a global forum for tourism policy issues and practical source of tourism know-how. For example: there is the:

- United Nations World Tourism Business Council (UNWTBC) utilizes a partnership approach to tourism as a method to promote public and private integration and as a model of understanding between the two sectors.
- The Africa Travel Association (ATA), a non-profit, non-political travel industry trade association, which promotes tourism to the African continent and intra-Africa travel.
- The Indian Ocean Tourism Organisation (IOTO) -- a regional tourism marketing body founded in June 1995. Its vision is that every country around the Indian Ocean Rim will optimise its tourism potential in a sustainable manner to the benefit of all people.
- The Regional Tourism Organisation of Southern Africa, RETOSA, is a regional tourism co-operation organization intended to develop the
combined tourism interests of its 14 member states well into the next century. Its mandate is to market and promote the Region in close cooperation with the Southern Development Community.

It is also important to note that the national tourism landscape is replicated at provincial and local levels. However, there are variations depending on different dynamics in different localities.

**3.3 SOUTH AFRICAN TOURISM CLUSTER**

SAT (2007) presents South Africa as a tourist paradise, offering scenic beauty, diverse wildlife, a kaleidoscope of cultures and traditions, and endless opportunities to explore the outdoors through sport and adventure activities. Tourism’s estimated contribution to gross domestic product (GDP) increased from 4, 6% in 1993 to 8,3% in 2006 (see Table 3.2 below) and this is expected to increase to 12% by 2014. As part of ASGISA, stretch targets and goals have been set for tourism for the next five years: 500 000 new jobs, 8,5 million international arrivals annually and a contribution to the GDP of at least R100 billion a year. In addition, tourism has been identified as one of the key economic sectors with excellent potential for growth.

<table>
<thead>
<tr>
<th></th>
<th>World</th>
<th>Africa</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number Directly employed</td>
<td>74 million</td>
<td>6,2 million</td>
<td>±425 930</td>
</tr>
<tr>
<td>Total employed</td>
<td>225 million</td>
<td>15,7 million</td>
<td>947 530</td>
</tr>
<tr>
<td>Contribution to GDP %</td>
<td>10, 1%</td>
<td>10%</td>
<td>8,3%</td>
</tr>
<tr>
<td>Total Direct Contribution to GDP (Foreign and Domestic)</td>
<td>US$1 698 billion</td>
<td>US$38 billion</td>
<td>US$10,3 billion</td>
</tr>
<tr>
<td>Total Contribution to GDP (Foreign and Domestic)</td>
<td>US$929 billion</td>
<td>US$103 billion</td>
<td>US$2,4 billion</td>
</tr>
</tbody>
</table>

**SOURCE:** Adapted from South African Tourism (2007)
Tourism is the only sector nationally that has managed to grow jobs (currently half a million and rising) while increasing its contribution to the GDP. It is estimated that for every 12 new tourists to the country, one new job is created.

By 2010, South Africa plans to accommodate 10 million foreign visitors annually. The prospects of achieving this target are not too far fetched, but they depend on how South Africa is able to address its myriad of challenges as identified under 3.4.1 below. The South Africa’s tourism cluster is composed of many elements “ranging from the principal tourism attractions, to the suppliers of direct and indirect services and products, to the soft and hard infrastructure that enables the system to function” (The Cluster Consortium, 1999:49) (see Figure 3.3).

Figure 3.3: SOUTH AFRICAN TOURISM CLUSTER

At the heart of the tourism cluster, South Africa has unique selling points from the well-known Cape Town, Sun City and Kruger National Park to other lesser known...
cultural and historical attractions. Secondly, from a tourism distribution point of view, most visitors to South Africa take care of their own travel arrangement and less than 50% get through the traditional channel such as operators and travel agents. When evaluated from the perspective of the Porter’s Diamond Model, the following can be discerned from the South African cluster:

### 3.3.1 Demand Factors

The demand for tourism products has increased tremendously since South Africa achieved her democratic order in 1994. South Africa’s Top 5 Overseas Markets are (SAT, 2006):
- United Kingdom;
- Germany;
- United States of America;
- Netherlands; and
- France.

| TABLE 3.3 GLOBAL FOREIGN MARKET 2006 |
|-------------------------------|-----------------|-----------------|
| **Size**                      | 842 million     | 40,3 million    |
| **Growth (%)**                | 4.5%            | 8.1%            |
| **Direct Spend**              | US$735 billion  | US$242 billion  |
|                              | (excl. CAPEX)   | (incl. CAPEX)   |
| **Daily Spend**               | -               | -               |
| **Average Stay**              | -               | -               |
| (nights)                      |                 | 8 Nights        |

Source: Adapted from South African Tourism (2007)
Domestic tourism has also experienced growth driven by the rise of the black middle class – the so-called ‘black diamond’. The main sources of domestic markets are:

- KwaZulu-Natal,
- Gauteng
- North West
- Limpopo
- Eastern Cape

In terms of conferencing or business tourism, South Africa has become a major global player. For example, the 2002 United Nations World Summit on Sustainable Development in Johannesburg, with 40000 visitors, was the largest gathering of its kind in the history of the UN (Dube, 2004). The International Convention Centres in Durban, Cape Town and Johannesburg, have collectively hosted a number of high profile conferences, which are a result of successful bids against other competing global convention destinations.

3.3.2 Factor Conditions

The country is endowed with unique climatic, geographic, cultural and historic attributes. These encompass the unique scenery and eco-systems, world heritage sites and world famous landmarks:

- Robben Island;
- Fossil Hominid sites of Sterkfontein;
- Swartkrans; Komdraai and Environes;
- Ukhahlamba-Drakensberg Park;
- Mapungubwe Cultural Lanscape;
- Cape Floral Region Protected areas; and
- Greater St Lucia Wetlands Park.

Six main alternative mode of travel, namely: air, car hire, rail, bus and cruise ships are available in South Africa. The country has about ten major airports,
which facilitate the movement of international and domestic tourists. There is also a highly sophisticated, quality road infrastructure network that can easily compete with the best in developed countries. South Africa also possesses quality drinkable water and other infrastructure for water and sanitation, and electricity. This is notwithstanding electricity supply disruptions which have been experienced recently due to capacity constraints and lack of demand management strategies.

Amongst the obstacles that the country is grappling with are the high crime rate, especially the incidents of robbery, murder and rape. Secondly, there are also serious challenges in the way the scourge of HIV/AIDS is managed. Thirdly, there are also gaps in terms of human resources needs of the tourism industry (Theta, 2005).

### 3.3.3 Industry Structure and Rivalry

In terms of DEAT’s assessment (DEAT, 2005) the South African tourism industry is in a growth phase of the life-cycle and it is anticipated that this will remain so notwithstanding episodic fluctuations in the international markets. Four patterns are cited as characteristic of industries going through a period of growth, namely (DEAT, 2005:24):

- The rapid entry by new players and over capitalisation / excess capacity;
- Emergence of consolidating forces in order to control pricing and capacity;
- More ‘competition’ than ‘co-operation’ between players, and weak relationships within the industry; and
- Lack of industry-specific/institutional information.

Overall, rivalry amongst existing industry players is varied and where it is high competition has forced a majority of firms to reconsider their strategies and positioning in the market. Higher rivalry and competition exist among rapidly growing bed and breakfast, game lodges, tour operators and gaming sub-sectors of the industry. In some of sub-sectors such as for example, luxury hotels and car
hire, rivalry is limited. This has resulted in limited entry of new firms in hotels, car
hire, transportation and entertainment sectors and slow upgrading in service
provision, and limited diversification in new product development.

The consequence of limited rivalry is that levels of co-operation and relationships
within the tourism cluster are generally weak and players are reluctant to share
information. The overwhelming perception is that:

“…there is lack of trust and communication between business, government, and labour at all levels and that tourism stakeholders tended to operate independently rather than jointly.” (The Cluster Consortium, 1999:52)

3.3.4 Related and Supporting Industries
Generally, there is a strong array of interrelated key and supporting businesses in
the tourism cluster. These include accommodation, transport, restaurants, entertainment, travel agencies, tour operators, cleaning services, management and development services, the financial services and the communication and postal services. There are also limitations in terms of services for high-end travellers, five star establishments and problems around the lack of service excellence culture.

The existence of related and supporting industries is positive for cluster
development. However, this is marred by the fact that, in general, tourism enterprises in South Africa believe that the relationships they have across industry are moderate to weak (DEAT, 2005). There are is a fundamental disconnect between the perspectives of government and industry associations compared to companies more broadly.

3.3.5 CHANCE AND GOVERNMENT
In terms of chance events, many monumental and historically significant
incidents and events have had a profound impact on the growth of tourism in
South Africa. Amongst these, there is no doubt that incidents such as the release of Nelson Mandela and other political prisoners, the lifting of sanctions and other embargoes, and the smooth transition from the ancient apartheid regime to a democratic dispensation, have collectively contributed to the growth of the tourism industry. In addition to these chance events, government has placed tourism as one of the priority areas for economic development. The policy framework established through the White Paper on Tourism Development clearly expresses how the industry is rated in terms job creation, poverty reduction and economic growth. Post-1994 government has done a lot to ensure that there is macro-economic and political stability and thus creating an environment that is conducive to tourism growth and development. Investment by the public sector and the encouragement of public-private partnerships also signal the government’s intention to develop the industry.

3.4 TRAVEL AND TOURISM COMPETITIVENESS INDEX

The World Economic Forum has since 2007 embarked on a multi-year effort to understand and measure the Travel and Tourism (T&T) competitiveness of nations around the world. The Travel and Tourism Competitiveness Index (TTCI) aims to measure the factors and policies that make it attractive to develop the T&T sector in different countries. In term of Blanke and Chiesa (2008:4):

“The TTCI is based on three broad categories of variables that facilitate or drive T&T competitiveness. These categories are summarized into the three subindexes...: (1) the T&T regulatory framework subindex; (2) the T&T business environment and infrastructure subindex; and (3) the T&T human, cultural, and natural resources subindex. The first subindex captures those elements that are policy related and generally under the purview of the government; the second subindex captures elements of the business environment and the “hard” infrastructure of each economy; and the third subindex captures the “softer” human, cultural, and natural elements of each country’s resource endowments.”
In turn, each of these subindexes is constituted by about 14 of pillars of T&T competitiveness. These sub-pillars are explained in Table 3.4 below.

<table>
<thead>
<tr>
<th>Table 3.4: 14 SUB-PILLARS OF THE TRAVEL AND TOURISM COMPETITIVENESS INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The policy rules and regulations</td>
</tr>
<tr>
<td>2. The importance of the natural environment</td>
</tr>
<tr>
<td>3. Safety and security</td>
</tr>
<tr>
<td>4. Health and hygiene</td>
</tr>
<tr>
<td>5. The extent to which the government prioritizes the T&amp;T sector</td>
</tr>
<tr>
<td>6. Quality air transport infrastructure</td>
</tr>
<tr>
<td>7. Extensiveness and quality of the country's ground transport infrastructure</td>
</tr>
<tr>
<td>8. The general tourism infrastructure</td>
</tr>
<tr>
<td>9. Quality of the ICT infrastructure</td>
</tr>
<tr>
<td>10. Price competitiveness in the T&amp;T industry</td>
</tr>
<tr>
<td>11. Quality human resources</td>
</tr>
</tbody>
</table>
system in each country, as assessed by the business community. Besides the formal educational system, also takes into account private sector involvement in upgrading human resources, including the availability of specialized training services and the extent of staff training by companies in the country. b) **Availability of qualified labour** further takes into account the extent to which hiring and firing is impeded by regulations, and whether labour regulations make it easy or difficult to hire foreign labour. The health of the workforce is also included here, as measured by the overall life expectancy of the country as well as the specific costliness of HIV/AIDS to businesses.

| 12 | The **affinity for Travel & Tourism** measures the extent to which the country and society are open to tourism and foreign visitors. It is clear that the general openness of the population to travel and to foreign visitors has an important impact on T&T competitiveness, so a measure of the national population's attitude toward foreign travellers; a measure of the extent to which business leaders are willing to recommend leisure travel in their countries to important business contacts; and a measure of tourism openness (tourism expenditures and receipts as a percentage of GDP), which provides a sense of the importance of tourism relative to the country's overall size, are provided. |
| 13 | **Natural resources** are an important factor underlying national T&T competitiveness. Countries that are able to offer travellers access to natural assets clearly have a competitive advantage. Include a number of environmental attractiveness measures, including the number of UNESCO natural World Heritage sites, a measure of the quality of the natural environment, the richness of the fauna in the country as measured by the total known species of animals, and the percentage of protected areas. |
| 14 | The **cultural resources** at each country’s disposal are also a critical driver of T&T competitiveness around the world. Includes a measure of cultural heritage (the number of UNESCO cultural World Heritage sites) and sports stadium seat capacity, as well as the number of international fairs and exhibitions in the country. |

**SOURCE:** Constructed based on World Economic Forum TTCI Report 2008

### 3.4.1 SOUTH AFRICAN COMPETITIVENESS RANKING

In terms of competitiveness ranking, South Africa is ranked 60th. The country is ranked a high 21st for its natural resources, and 40th for its cultural resources, based on its many World Heritage sites, its rich fauna, and the many international fairs and exhibitions held in the country. South Africa also benefits from price competitiveness, with reasonably priced hotel rooms and a favourable tax regime. Infrastructure in South Africa is also well developed, particularly for the region, with air transport infrastructure ranked 40th and a particularly good assessment of road quality (38th). Overall, policy rules and regulations are conducive to the sector’s development (ranked 36th), with well-protected property rights and few visa requirements for visitors. The country also gets good marks for environmental sustainability (ranked 35th). And the government prioritizes the development of the T&T sector as a whole, through, for example, effective destination marketing (ranked 21st).

However, several issues contribute to bringing down the country's overall ranking, and present obstacles to the development of the industry, namely:
Safety and security is of serious concern (ranked 123rd), with the costs of crime and violence in particular ranked a low 125th. Linked to this are the road traffic fatalities, which are considered to be inordinately high given the size of the country.

The country also has weaknesses in the area of health and hygiene, where it is ranked 82nd as a result of its low physician density (91st) and concerns about access to improved sanitation (84th) and drinking water (75th).

Related to health indicators, human resources indicators are also extremely worrisome. South Africa’s life expectancy is low, at 48 years, placing the country 117th overall, a ranking related in large part to the very high rates of communicable diseases such as HIV/AIDS, which have deleterious implications for continuing availability of human resources for the T&T sector, as well as all sectors in the economy. Availability of qualified labour is also a concern.

The ICT infrastructure still warrants a lot of improvement.

There are also gaps about the quality of domestic transport networks.

The above findings are consistent with the findings of a benchmark study commissioned by DEAT (2005) to respond to the competitive challenges of the South African tourism industry. That study found that these were the most pressing challenges.

South Africa is attractive to a very narrow set of international travellers – the current potential market is very limited. Among the identified problems were that international travellers need to overcome significant barrier – based on perception of lack of Safety and Security.

SMME have difficulty in growing their businesses in the industry - due to lack of collateral, poor marketing, low margins, and lack of skills among other factors. Thus, majority of SMMEs are unable to sustain profits.
The channel of tourism delivery is not transparent and there is lack of an integrated channel delivery. Among the problem cited is lack of clarity within the industry and government on how the channel functions.

Poor linkages within the cluster. Among the problems sited were weak to moderate linkages within cluster, low levels of information sharing, weak linkages between industry and educational institutions.

The industry itself is not well organized and as a result, it is not possible to have meaningful discussions with the “industry”. Among the problems cited are that national industry associations are not representative of the industry, majority of the industry associations are not organized by sub-sector, and there are many SMMEs and Historically Disadvantaged Individual-type organizations and many small players who are not interested in joining organizations.

There is lack of institutional capacity at the local level and in some cases at provincial level. A major problem related to this issue is that local and provincial authorities seem not to understand the importance of the tourism sector.

Quality control is an issue in the industry and given that the application of the word of mouth marketing there is a need to ensure quality and satisfaction of the tourist’s experience.

There is a lack of relevant skills and experience in the industry, which is constraining growth, service levels and value extraction. Among the problems cited were; poor linkages between industry educational institutions and THETA, private sector stance on skills development i.e. that higher institutions are not producing the appropriate skills, SMMEs lack of skills, THETA not functioning optimally.

Lack of informed coordinated and informed investment into the sector, and a lack of monitoring of investment values. Among the problems influencing are lack of integrated tourism infrastructure planning, no incentive schemes, poor collateral for HDIs, challenges facing financial houses in
evaluating business plans due to systematic lack of data on the performance of the industry and lack of integrated investment framework.

Tourism enterprises find it difficult to access finance. Problems related to the issues were: businesses lack depth when it comes to marketing, evaluation of risks in the industry is problematic, and complex challenges facing SMMEs.

Both industry and the tourists have identified key infrastructure investment areas. Safety and security are seen as a major perceptual barrier, lack of good public transport, lack of tourism information facilities, lack of public amenities in key tourist areas among others.

The South African Tourism industry is still largely untransformed. Among the problems cited were: limited opportunities for transformation to make it representative of the demographic realities of the country, lack of score card in the industry, current state finance support not being successful, and government procurement should be improved.

Lastly the issue of product configuration and positioning was identified. Problems associated are small domestic market, limited product set for domestic middle class, domestic traveller being out-priced with regards to South Africa’s own attractions.

3.5 STRATEGIC INITIATIVES: GOING FORWARD

To respond to the above challenges, the South African government has not only declared the tourism industry one of its priority areas for development, but a host of exciting initiatives are currently been implemented to turn the industry around. Four such initiatives are highlighted below.

3.5.1 TRANSFORMATION OF THE TOURISM INDUSTRY

Like all South African industries, the tourism industry is required to be transformed in terms of the Broad-based Black Economic Empowerment Act No.53 of 2003. To this end, the Tourism Black Economic Empowerment (BEE) Charter has been signed by the representatives of the industry and government
on 18 July 2005 (DEAT, 2005a). This Charter applies to all private sector players in the industry and has a scorecard, which measures three core elements of BEE, namely:

- direct empowerment through ownership and control of enterprises and assets (Ownership and Strategic Representation);
- human resource development (Employment Equity and Skills Development); and
- indirect empowerment through preferential procurement and enterprise development (Preferential Procurement, Enterprise Development and Social Development). The details of the scorecard are presented in Appendix B.

According to the Charter (DEAT, 2005a:6), the direct empowerment component comprises the equity ownership and management element of the Scorecard. In this regard, the key focus of the direct empowerment component is its economic impact on the equity holders, executives and other owners and managers of economic resources. It must be noted, however, that the beneficiaries assume direct economic risk for their involvement and expect returns that are commensurate to that risk. The Human Resources Development (HRD) component comprises two elements, namely Employment Equity and Skills Development. The focus of this component is internal transformation that will accelerate the development of an entity's black employees, as well as any potential employees of the enterprise. The aim is to ensure that there is demographic representation of black people in the workplace and will prevent income inequality across the different population groups in the same occupational categories or at the same skills level. This component also measures the contributions made by enterprises to advance the skills of its employees. The indirect empowerment component enables and encourages an enterprise to facilitate broad-based BEE in entities and communities with which it interacts. The elements of Preferential Procurement, Enterprise Development,
Social Development and other industry related factors are recognized and measured.

3.5.2 SKILLS DEVELOPMENT
To respond to the challenge caused by the disjuncture in skills demand and skills supply, The Tourism, Hospitality and Sport Education and Training Authority (THETA), has been formed to drive agenda of skills development within this sector. To this end, a Skills and Development Plan 2005-2009 is currently been implemented (THETA, 2005). This plan focuses on retention of critical skills; facilitating access of new entrants to the industry; promotion of innovation; quality training; basic training though Adult Basic Education and Training; and transformation. Whether the THETA will leave to this challenge is still a moot point. This is because Sector Education and Training Authorities face severe criticism in terms of the capability to drive the skills development agenda to desired levels.

3.5.3 INVESTMENT FRAMEWORK
In response to a concern about the lack of an integrated and coordinated framework to drive investment effort in the tourism industry, a framework has been developed (DEAT, 2005b). The objectives of this framework are:

- To increase the focused and targeted nature of tourism investment activities undertaken by public sector bodies through a coordinated and aligned approach;
- To ensure that tourism investment activities are informed by supply and demand trends in tourism;
- To standardize the scoping, assessing and packaging of tourism investment opportunities in order to ensure they are appropriate and well researched;
- To work together in a professional, clear and effective manner in order to maximize investor interest and conversion of this interest into actual investment;
To clarify the roles and responsibilities of the various public sector tourism investment actors; and

To identify priority products at both national and provincial level in order to drive investment into these areas and opportunities.

As part of this framework Spatial Development Initiatives (SDIs) are been implemented, for example, the Maputo Corridor; Lubombo SDI, Richards Bay SDI, Fish SDI, and Platinum SDI. Secondly, about 19 tourism nodes called Priority Areas for Tourism Infrastructure Investment have been identified (see Table 3.5 below).

Coupled with the above priorities, there are consorted efforts been put to invest in the 8 world heritage sites. Also within the investment loop of priorities are the 20 national parks under SAParks; Transfrontier Conservation Areas; Wetlands; Biosphere areas; and a range of rural and urban poverty nodes; and fish harbours.

**Table 3.5: Priority Areas for Tourism Infrastructure Investment**

<table>
<thead>
<tr>
<th>NORTHWEST/MADIKWE</th>
<th>THE PILANESBERG AREA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soweto</td>
<td>Northeast/Punda Maria</td>
</tr>
<tr>
<td>North/Phalaborwa</td>
<td>Lowveld/Nkamazi</td>
</tr>
<tr>
<td>Lowveld/White River</td>
<td>Northern KwaZulu-Natal/Lebombo</td>
</tr>
<tr>
<td>Lower Umfolozi</td>
<td>Durban Hinterland</td>
</tr>
<tr>
<td>Amatola</td>
<td>Wild Coast/Port St Johns</td>
</tr>
<tr>
<td>Port Elizabeth/Fish River</td>
<td>Port Elizabeth/Ado</td>
</tr>
<tr>
<td>Caper Town as a centre of excellence</td>
<td>Wild Coast/Fish River Link</td>
</tr>
<tr>
<td>Kalahari Triangle</td>
<td>Clarens and Surrounding Areas</td>
</tr>
<tr>
<td>KwaZulu-Natal battlefields</td>
<td></td>
</tr>
</tbody>
</table>

*Source: DEAT (2005b)*

### 3.5.4 2010 SOCCER WORLD CUP PLANNING

FIFA’s announcement on 15 May 2004 that South Africa was the host country for the 2010 Soccer World Cup, help set in motion a plethora of tourism initiatives as
different stakeholders sought to ready themselves for this great spectacular. A diagnostic analysis of all potential host cities was done (DEAT, 2005c) around the issues of graded accommodation; transport facilities and infrastructure; concern over safety and security; tourism support services; and attractions, including events especially geared at the international market. Flowing from this analysis host cities have developed strategic plan to respond to identified areas of weakness and those that require strengthening.

The World Cup provides an opportunity to make a lasting impression on the international tourists. It is encouraging that issues of safety and security, skills development, revamping of tourism infrastructure and soccer venues, emphasis on service quality and excellence, and new product developments; are receiving coordinated and integrated attention by all players within the industry and governments in all spheres. Significantly, most 2010 World Cup Planning processes go far beyond 2010 itself and serve as an avenue to improve tourism industry’s competitiveness overall. Secondly, collaborative relations and partnership that have been developed and nurtured will go a long way towards finding sustainable solutions to the many of the challenges that beset the industry. There is hope also that the recent xenophobia-inspired violence and the envisaged leadership changes in government post-2009 elections would not affect the hosting of this landmark event, the world’s biggest festival.

As a conclusion, in this chapter a broad-brush picture of global tourism industry trends and future outlook have been provided. In addition, a highlight of the current state of South African tourism industry and its competitiveness challenges was presented. The next chapter presents the research methodology that used in this study.
CHAPTER 4
RESEARCH METHODOLOGY

3. INTRODUCTION
This chapter is about the research approach adopted in this study. It explains in detail the pros and cons of using qualitative research methodology and its justification for the purposes of this study. Secondly, it outlines the strategies employed to collect data as well as the challenges as well as limitations and/or constraints which were experienced. Thirdly, it addresses issues of reliability and validity and concludes with the ethical dilemma characterising a study of this nature.

3.1 RESEARCH DESIGN
The research design is the general plan of how you go about answering the research questions. It basically addresses issues such as:

- What are the research questions that the study needs to respond to?
- What is the unit of analysis and the justification thereof?
- Why you should adopt a particular research approach and strategy?
- Which tactics to use for data collection and analysis?
- What is the time horizon?

To aid in planning this study, a research design as shown in Figure 4.1 was conceived. Based on the purpose and objectives of the study, the necessity to crystallize the research questions became apparent. Flowing from this, the unit of analysis was identified. This then informed and influenced the research approach and strategy that was adopted. As a consequence, the tactics for data collection and analyses were also developed. Although this process is linear and sequential, the reality is that in practice the process was more iterative and disorderly.
3.1.1 RESEARCH QUESTIONS
The purpose of this study and objectives and the research questions that this study seeks to address were stated in chapter 1. However, for ease of reference, the research questions are restated to help understand why a particular research paradigm and strategies were chosen.

The research questions that this study sought to address are:
What are the developments and possible gaps in the literature about industry clusters since 1990 and how have potential clusters been analyzed, mapped and activated?

How competitively advantageous is the KwaZulu-Natal tourism industry and why do its resource strengths and capabilities provide the necessary conditions for establishing a potential tourism cluster?

How will a potential model of a tourism cluster be mapped out and why will KwaZulu-Natal as a location benefit from activating a potential tourism cluster?

What are the strategic management challenges and implications for activating a tourism cluster in KwaZulu-Natal and how can these be overcome?

What is to be done to activate the tourism industry cluster and what will be the role of different actors or stakeholders?

### 3.1.2 UNIT OF ANALYSIS

The purpose of this study is exploratory in nature in that it is about conducting an investigation in relation to the potential of developing a model of a tourism cluster in the province of KwaZulu-Natal. Thus, the unit of analysis is the tourism industry in the Province of KwaZulu-Natal.

### 3.1.3 RESEARCH APPROACH AND STRATEGY

The choice of a research approach is informed by many variables such as the nature of the study, the objectives that the study seeks to achieve, resource availability and time constraints. For the purpose of this study, a qualitative research approach was employed. The motivation for using the qualitative research approach was twofold: Firstly, it was felt that qualitative research would be useful in enabling the researcher to answer how and why certain phenomena occur as sought by the purpose, objectives and research questions of the study. Secondly, as Cooper and Schindler (2007:196) accentuate, qualitative research “includes an array of interpretative techniques which seek to describe, decode,
translate, and otherwise come to terms with the meaning, not frequency of
certain more or less naturally occurring phenomena in the social world.” It was
therefore felt that the quantitative research approach, which attempts precise
measurement of something and answers questions related to how much, how
many, when and who, was inappropriate and would not yield deeper meaning
and an in-depth understanding about the tourism cluster phenomenon as
envisaged by the purpose, objectives and research questions of the study.

3.1.4 RESEARCH STRATEGY

Given the qualitative research approach chosen for this study as enunciated in
3.1.3 above, a case study research strategy was adopted focusing on the tourism
industry in KwaZulu-Natal. Yin (2003:13) defines case study research as “an
empirical inquiry that investigates a contemporary phenomenon within its real-life
context, especially when boundaries between phenomenon and context are not
clearly evident”. Consistent with this view of case study as a quite eclectic
approach, Robinson (1993:52) pinpoints that a case study is:

- a strategy, i.e. a stance or approach, rather than a method, such as
  observation or interview;
- concerned with research, taken in a broad sense and including, for
  example, evaluation;
- empirical in the sense of relying on the collection of evidence about what
  is going on;
- about the particular, a study of that specific case (the issue of what kind of
generalization is possible from the case, and how this might be done, will
concern us greatly);
- focused on a phenomenon in context, typically in situations where the
  boundary between the phenomenon and its context is not clear; and
- using multiple methods of evidence or data collection.”

The reasons for selecting KwaZulu-Natal tourism industry as a case study
stemmed from the fact that the researcher found it very practical to gather the
necessary data. Secondly, the province also provided ample scope for learning more about clusters and economic development as the province was also involved in other cluster initiatives, for example, the auto industry cluster and the leather industry cluster. Furthermore, the tourism industry in particular, was the fastest growing industry in the world and critical to job creation and poverty reduction especially in the context of developing countries. It thus, presented an opportunity development within the province to address. Lastly, tourism potentially exhibits most of the prerequisite conditions essential to cluster development, especially the horizontal and vertical linkages, interdependencies and networks among different enterprises and stakeholders, and developing a cluster model in tourism was thus in a realm of the possible.

3.1.5 METHODS OF DATA COLLECTION AND ANALYSIS

A combination of data collection methods were used in this study, namely: semi-structured interviews; and document analysis. These are explained below.

3.1.5.1 Semi-structured interviews

Saunders et al. (2007) suggest that in exploratory studies, semi-structured interviews and are other non-standardised (qualitative) research interviews are most relevant as they provide an opportunity to probe answers where the interviewer wants respondents to explain, or build on, their responses. They state that managers prefer face-to-face interviews rather than completing questionnaires, because they are reluctant to provide sensitive and confidential information to someone they have never met. Some of the motivations for semi-structured interviews are that:

“In semi-structured interviews the researcher will have a list of themes and questions to be covered, although these may vary from interview to interview. This means that you may omit some questions in particular interviews, given specific organisational context that is encountered in relation to the research topic. The order of questions may also be varied depending on the flow of conversation. On the other hand, additional
questions may be required to explore your research questions and objectives given the nature of events within particular conversations. The nature of the questions and ensuing discussion mean that data will be recorded by audio-recording the conversation or perhaps note taking.” (Saunders, et al.; 2007:312)

In this study, semi-structured interviews were conducted. To determine which organisations to approach for interviews, guidance was sought from Cooper and Schindler (2006) who assert that in qualitative studies sampling sizes are generally small. They also point out that qualitative research involves non-probability sampling where little attempt is made to generate a representative sample. For this reason and taking into account the purpose of this study, population of interest was all organisations within the public, private and non-governmental sector in the province of KwaZulu-Natal, who are actors involved in tourism promotion and development whether directly or indirectly. A form of purposive sampling technique known as judgemental technique was thus employed to identify respondent organisations. This technique was chosen because it allowed for the selection of respondents who, in the judgement of the researcher, were the best to supply the necessary information to achieve the research objectives. Coupled with this reasoning is the fact that because judgemental sampling never allows randomisation, respondents could be stratified (Page and Meyer, 2005) to derive a diverse set of opinions and ideas about the data the study sought to collect. Accordingly, in the absence of a sampling frame the researcher deliberately chose participants arbitrarily from the groups as profiled alphabetically (without any order of priority) below:

- Durban Africa, the Tourism Authority of the City of Durban
- Durban Chamber of Commerce
- Experts on cluster-based economic development strategies drawn from the academia in the province
- Federation of Hospitality and Leisure Industry of South Africa (FEDHASA)
KwaZulu-Natal Department of Arts, Culture and Tourism
KwaZulu-Natal Department of Economic Development
KwaZulu-Natal Investment Promotion Agency
KwaZulu-Natal Tourism Authority
South African Local Government Association, KwaZulu-Natal Province
Tourism Enterprise Partnership (TEP)

These organisations were selected because the researcher believed that they would be able to provide the necessary input data to assist in responding to the research questions as they are knowledgeable not only about the cluster construct in general, but also possessed specifics relative to the tourism industry in KwaZulu-Natal. Another consideration was that these respondents would be able to provide a provincial perspective instead of localised context. More importantly, experts were brought in because of their experiences in working with clusters not just in South Africa, but on a global basis. They also became useful in pointing the researcher to other sources, which helped to broaden the literature review. Finally, it is important to emphasise the selected respondents represent the major stakeholders of the tourism industry in the province.

To access individual respondents for an interview, telephonic requests for interviews were made to the heads of organisations or directly to the concerned individuals. These were followed up by e-mail requests and confirmations directed at respondents who have been identified as ideal candidates for interview because of their expertise.

A semi-structured questionnaire was developed as a research instrument to gather primary data by refining and adapting the Industry Cluster Interview Template suggested by Mayer (2005:46) (see Appendix B), to be relevant in the context of this study. The questionnaire solicited the following data:

Solicited broader understanding about the concept of clusters and their use in formulating economic development strategies;
Benefits and disadvantages of clusters;
Cluster mapping;
The competitive advantages of the tourism industry in KwaZulu-Natal;
How to activate a model of a tourism cluster in KZN;
Strategic management challenges and implications of activating the tourism cluster;
Critical success factors and driver, as well as the future prognosis.

The questionnaire allowed the researcher to solicit specific responses and at the same to probe issues for more clarity and understanding about the phenomenon that is being studied.

Interviews took four weeks and were completed mid-September due to non-availability of some of the respondents. The interviews were not auto-recorded due to the fact that permission to tape the interviews was not granted. However, copious interview notes were taken and all endeavours were made to ensure that the views of respondents were accurately reflected and captured.

3.1.5.2. Document analysis
The second tactic used to collect data was the document analysis, in particular to collect secondary data. The form of secondary data gathered included journal articles, annual reports, policy documents, censuses, labour market and economic trends, and sector analyses. The aim of gathering secondary data was threefold:
- To undertake the literature review and to understand tourism trends from a global and South African perspectives;
- To help in recording all relevant details about the context surrounding the case, including information about the physical environment and any historical or contemporary, social, economic and competitive factors that were likely have a bearing on the study (Leedy and Ormrod 2005); and
- To enable the triangulation of data collected through the interviews.
To source secondary data requests were made to different organisations that were interviewed for this study to supply the researcher with un/published data that may have been located in-house in various organisations or institutions constituting the tourism industry. Secondly, the UNISA Online library and the KZN Tourism Resource Centre were extensively utilised. Thirdly, for data located on the Internet, search tools such as Google, MSN and Yahoo were utilised. In some cases specific sites hosted by different companies, associations and government agencies relevant to the industry were also surveyed.

3.2 DATA ANALYSIS
Data analysis for qualitative research is a process that is less discrete than that found in quantitative research, and allows the researcher to bring meaning to large amounts of data that has been collected (Struwig and Stead, 2001). Five steps were followed to analyse data from this case study (Leedy and Ormorod, 2005:136):

Firstly, the organisation of details about the case was done in such a way that facts about the case were arranged in a particular logical or chronological order. Secondly, categories were identified that to help to cluster the data into meaningful groups. Thirdly, specific documents, occurrences and trends were examined for specific meanings they might have in relation to the industry. Fourthly, the data and their interpretations were scrutinised for underlying themes and other patterns that would characterise the case more broadly than a single piece of information would reveal. Lastly, an overall portrait of the case was construed and conclusions were be drawn that would have implications beyond the specific case which is the subject of the study.

3.3 DATA QUALITY AND RELIABILITY
Saunders et al. (2007:317-319) identify three data quality issues that plague semi-structured interviews, namely: reliability; forms of bias; and validity and
generalisability of results. Steps were taken to ensure that the level of preparation for the interviews and the approach to questioning was done in such a way as to avoid any pitfalls that were likely to compromise the results. Although, by their nature semi-structured interviews do not necessarily lend themselves to replication and generalisation, care was exercised to ensure that the study is related to existing theory to demonstrate that the findings of the study would have a broader theoretical significance.

3.4 ETHICAL CONSIDERATIONS
The consent of respondents was sort before interviews. None of the respondents agreed to be auto recorded. They were also assured that their names would not be revealed in the study, but the names of their organisations be made known. For reasons of ensuring that respondents become anonymous, direct quotations from respondents are merely ascribed to unnamed respondents. It was also agreed that confidentiality would also be maintained and steps would be taken to ensure that no ethical considerations are violated. For these reasons, the study has not raised any ethical concerns.

3.5 LIMITATIONS OF THE STUDY
It is noted that the respondents cited in the study were mainly from Durban and Pietermaritzburg. This is because most of the tourism bodies with a provincial focus are based in these areas. Attempts were made, however, to interview respondents from the Zululand Chamber of Business and officials responsible for tourism in the uThungulu District Municipality. These did not materialise.

3.6 CONCLUSION
This chapter sought to outline the research methodology employed in this study. It covered how data has been gathered and prepared for analysis. It has also highlighted how ethical issues raised in the study have been addressed. In the next chapter, the analysis of data is presented.
CHAPTER 5
RESEARCH RESULTS

5. INTRODUCTION
In the previous chapter, the methodological approach adopted in this study has been outlined. In this chapter the main focus is on the analysis of data that were accumulated throughout this study and the presentation of the research findings.

5.1 PROFILE OF KWAZULU-NATAL PROVINCE
To gain a better understanding about the case study of tourism in KwaZulu-Natal, it was necessary to gain more insight about the Province itself. KZN is one of the nine provinces of South Africa. According Statistics South Africa (2008) KwaZulu-Natal has the second largest share of the South Africa population after Gauteng. It has an estimated population of 10,1 million, which constitutes about 20,8% of the overall South African population. It is also imbued with a tapestry of cultural and historical resources.

KZN is strategically located into three different geographic areas. The north and south areas are on the Indian Ocean coast. The central region is the Natal Midlands and is an undulating hilly plateau rising to the west (KZN Provincial Government, 2008). KZN is also blessed with a varied yet verdant climate due to its diverse, complex topography. Generally, the coast is a subtropical climate and the inland is progressively colder.

Tourism growth and its contribution to the provincial economy is becoming more and more significant as supported by data in Table 5.1 below.
Table 5.1 KZN TOURISM CONTRIBUTION 2006

<table>
<thead>
<tr>
<th>ECONOMIC ACTIVITY</th>
<th>CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number Directly Employed</td>
<td>77 000</td>
</tr>
<tr>
<td>Total Employed</td>
<td>143 000</td>
</tr>
<tr>
<td>Contribution to GDP %</td>
<td>10%</td>
</tr>
<tr>
<td>Total Direct Contribution to GDP (Foreign and Domestic)</td>
<td>R14.1 billion</td>
</tr>
<tr>
<td>Total Contribution to GDP (Foreign and Domestic)</td>
<td>R20 billion</td>
</tr>
</tbody>
</table>

Source: Adapted from Tourism KwaZulu-Natal (2007)

The province is also beset by a lot of weaknesses, for example (KZN Provincial Government, 2006; KZN Treasury Department, 2007):

- 5.3 million people were living in poverty and 1.2 million people were living on less than US$1 a day (R6.5 a day or R200 a month);
- the estimated poverty gap is Rbn18.3 (the amount required to raise the income of these 5.3 million people to the poverty line);
- 1.5 million people lived with HIV and Aids (15 per cent of the population in 2005), and generally high HIV/AIDS prevalence rate estimated between 18 and to 22 % - the highest in the country;
- Life expectancy dropped to 45 years;
- 15 per cent of the population, 20 years or older had no schooling, 41 per cent had no secondary schooling, and 73 per cent had not completed grade 12 (Stats SA, Census 2001);
- Extremely high and growing unemployment rates (approximately 33% of labour force classified as unemployed);
- Service delivery backlogs, with less than 60% of household having access to basic services;
- Increasing inequalities in the province as measured by the Gini-coefficient;
Human capacity problems – mismatch between supply and demand especially with regard to professional, engineering and technical skills, illiteracy and low retention of appropriately trained and skilled staff in rural municipalities; and

Relatively high crime rates, especially violent and contact crime and crimes against women and children.

In short, the province’s profile highlight the abundant opportunities that that exist for tourism to contribute to solving some of the weaknesses facing the province; and simultaneously, it highlights the socio-economic challenges which need to be addressed to make tourism attractive and competitive. This subject is dealt with further in 5.4 below.

5.2 UNDERSTANDING CLUSTERING AND THE POTENTIAL FOR PROVINCIAL TOURISM CLUSTER

As a measure of gauging the extent to which the conversation about clusters would be on the same wavelength, different respondents were asked to voice their understanding of a cluster. Secondly, they were asked which the conditions they thought needed to exist for a potential cluster to be developed; and whether they perceived such conditions to be present in the tourism industry of KZN. This latter question was extremely important, because there is agreement in literature that it is difficult or nearly impossible for public policy intentionally to create industry clusters where they do not already exist. There is also agreement that most successful clusters have evolved serendipitously.

The findings were quite mixed. The way the concept of a cluster is verbalised by different respondents has generated uneven understanding about the construct itself. There is on the whole nothing unusual about this suppleness in the way a cluster is viewed. This finding is consistent with the literature review, which identified that the notion of a cluster as essentially a concept that is imbued with
definitional and conceptual elasticity that permit a wide range of cases and interpretations. One of the respondents captures this succinctly:

“The term cluster has been used in a descriptive form and this causes confusion. The key is what needs to be present and what elements are needed for there to be a cluster. Whilst location, proximity and densities of activities are important and may be present in a particular locality, that does not mean a cluster is already present, because there could be no collaboration among existing firms and all other institutions and superstructures that ought to make up the cluster.”

There were common threads, though, in terms of the nature of elements that need to present for a cluster to exist. These elements have to do with:

- A defined geographic location;
- Firms with interlinked and interdependent value chain;
- Complex web of supplier and customer networks and relationships;
- Willingness to share information, expertise, and best-in-class practices;
- Innovation drive; and
- Vision, and cemented by mutual trust and respect and a duality of co-operation and competition.

Again what has been perceived as necessary elements for a cluster to exist, more or else resonate with those identified in the literature review.

Four broad perspectives were presented about how respondents perceived the presence or absence of these factors for the potential tourism cluster in KZN. The first perspective was that save for the geographic location, tourism as it exists in KZN is currently very fragmented, untransformed and mired by lack of trust, all of which render the existence of a potential cluster nearly impossible. “As much as government recognises the strategic significance of the industry, it is still difficult to push big players like Southern Sun to realise the benefits of transformation especially at a broad-based level, not just the black elites,” echoed one
respondent. The second perspective argues that indeed the conditions for a potential tourism cluster already exist at a provincial, and this manifest itself in the way that different stakeholders are collaborating with the community around different programmes and projects to make the cluster work. Linked to this perspective, there is a third perspective in which the conditions of a potential cluster are seen as existing not a provincial level per se, but in various pockets of geographical locations in cities such as Durban, because of the existence of prime tourism attractions and infrastructure; around World Heritage sites such as the Drakensberg Mountains and the Greater St Lucia Wetland Park; and the vicinity of historical/cultural sites such the Battlefields.

The last view is a hybrid of the second and third perspectives. This view appeared to be the most prevalent view. It underlines that conditions exist for a potential tourism cluster at a provincial level, albeit, demonstrating differential strengths across different parts of the province. More importantly it sees the cluster as “in a passive state and needing to be activated by turning passive formations into active vehicles of economic activity, lest the potential tourism cluster descend into a moribund state before it is even conceived”. In this regard social capital is seen as critical to mobilise stakeholders within tourism in the province into action to reap the benefits of clustering and actively nurture the benefits of spillovers. Thus, it is stressed that connections with competitiveness in clustering a potential tourism cluster must be about deliberative actions aimed at achieving distinctiveness, differentiation and innovation. The emphasis is also placed on the understanding that clusters become strong where the needs for collaboration are stronger than distance. “The more firms believe that the risks of sharing information and collaborating are high, the fear of loosing competitive edge and the reservations about working together become stronger”, one respondent attests. In this perspective problems about fragmentation and lack of or slow pace of transformation are not ignored, but seen as broader challenges that a potential cluster initiative would engage if it is to succeed in the medium to long-term.
Notwithstanding, the different perspective advanced by different respondents, there is an unbelievable awareness that the success of a potential tourism cluster cannot happen in a vacuum. But is inherently depended on achieving synergies and joint problem-solving amongst different stakeholders be they government, private associations, individual entrepreneurs, non-governmental organisations, research, training and academic institutions and communities.

5.3 BENEFITS AND DISADVANTAGES OF A TOURISM CLUSTER FOR KZN

The benefits of activating a tourism cluster in KZN were seen as numerous. These benefits could be divided into three categories. The first category relates to what firms and institutions could possibly benefits. Secondly, there are benefits that could accrue to society as a whole. Finally, certain benefits are specific to government itself. However, all these categories of benefits are of strategic significance to the tourism industry as a whole. These benefits are itemised below without any order of importance.

- Skills development and transfer
- Enterprise development and enhanced access to funding for enterprise development
- Better coordination in terms of planning, product development, marketing and branding
- Partnerships between emerging players and established players that can yield win-win returns
- Academic and research institutions will be more engaged in generating knowledge and capabilities that will take the industry into the future
- Elimination of poverty and unemployment
- Increase market share in terms of international tourist arrivals and maintain market leadership in domestic tourism
- Transformation of the industry
Promote innovation, collaboration and raise the bar in terms of expected standards of excellence and product mix and offerings.

Firms will also benefit through exchange of information, sharing of knowledge and inculcating innovative practices.

Integrated programmes for infrastructure development

In relation to perceived disadvantages, there were fears that established players could co-opt and simply assimilate emerging players, thus, frustrating the process of transformation within the industry. In addition, some of the respondents appeared to be more concerned about the fact that the process of cluster development may be a long bumpy road and because relationships and trust take longer to mature, without a proper stewardship clustering could actually be a waste of time and resources. There were other negative externalities of clustering pointed out. One of the respondents pointed out that “clustering tourism institutions could falter if the principles of environmental sustainability were not adhered to and if the dictates of greed and profit maximisation excluded communities from the radar screen of ultimate beneficiaries.” Overall, there admission was that the benefits were more real than the disadvantages. In other words, the overwhelming response was that cluster-based economic development strategies had more benefits than disadvantages, especially if the cluster was activated correctly.

5.4 KWAZULU-NATAL TOURISM CLUSTER MAPPING

To determine the KZN Tourism Cluster Map, respondents were asked how they would go about mapping the cluster. Two broad approaches were suggested: the general and the specific. The general archetype that emerged seems to include but is not limited to:

- The need for identification of tourism stakeholders;
- Reasons for tourism and which activities attract or excite tourists be they domestic or international and their location;
How tourists get to know about those attractions and how they get to experience those attractions positively;

Who are the intermediaries serving as the channel for distribution of tourism products

What they use to reach those attractions, that is, modes of transport used;

Unpacking the whole tourism value chain into finer details; and

Establishing which industries are supported by or support the tourism industry.

Furthermore, one of the most creative responses to emerge to augment the general discourse was the use of a game analogy. For one respondent,

“… a map of the tourism cluster in KZN could be conceived as a ‘game’ with players each with complex and different value-add, with certain boundaries and linkages to other games, full of competitors and complementors, that is, those who make one player’s services more valuable than if that player’s services were available alone, and very demanding and passionate spectators.”

From this perspective, according to this respondent,

“… it will become easier to define the game itself, who and what the spectators are passionate about, its boundaries and linkages to other games, competitors, complementors, responsibility and accountability for setting rules of the game and the rewarding or punishing of adherence or non-adherence to the rules, and the means that spectators utilise to reach the place where the game is staged.”

On the more specific level, several suggestions were also made. It was first acknowledged that mapping the tourism cluster in the whole province is a complex endeavour for which real time data was needed to gain insight about
how the potential cluster works in practice. However, as a start, the processes of “cluster mapping need to take into account the tourists and the reasons for visiting the province whether, visiting friends or relatives, business or attending conferences or pure leisure”. Secondly, there were other additional factors to be taken into cognisance, for example:

- Where the tourist stay for the duration of their visit;
- What places they visit or become attracted to;
- How they get to know about and get to their various destinations;
- Who helps them to make arrangements for their visit;
- How they navigate their way to and become educated about their destinations;
- What sort of infrastructures enable them to enjoy their visit and who is responsible for it;
- The real people who make their stay memorable or a nightmare; and
- What environments contribute to making them repeat their visits?

Thirdly, the roles of different spheres of government and their agencies need to be factored as well because they are largely responsible for making the macro-economic, social and political environment conducive to tourism; they support various tourism promotion agencies; they make policies and set standards whether for health and safety of tourists or for quality purposes. Fourthly, apart from these efforts, an even greater task is to isolate those industries that benefit from tourism or help tourism to benefit. In other words, care must be taken to identify industries that support and are related to tourism both in the strictest and broadest senses.

Fifthly, it was also suggested that a destination value chain analysis could also be employed. In essence, this would help in identifying the primary and support activities. By primary activities, issues such destination and product packaging; promotion, distribution and sales; inbound and outbound logistics; destination operations and services; and aftercare; were identified as critical. Support
activities were defined as issues such as for example: destination planning and infrastructure; human resources demand and supply; product development; technology and systems development and related industries and procurement.

To be even more specific, one of the respondents categorised the cluster map as consisting of different elements, namely:

- Tourism customers, who happen to be both domestic and foreign tourist;
- Channels of distribution used by tourist, that is, travel agents, tour operators;
- Owners of accommodation, hotels, B&Bs, camping sites
- Attractions, cultural, berg, sports and events, historical, educational, leisurely;
- Transport, car hires, taxis, coaches and buses, trains, sea and air transportation;
- Tour guides;
- Educational and research institutions, Further Education Colleges, SETA’s;
- Government and their agencies, standard organisations, etc.;
- Restaurants;
- Entertainment industry;
- Arts and craft industry; and
- Financial institutions, banks, exchanges;

Based on the above inputs an attempt was made to present the KZN tourism map (see Figure 5.1). This map epitomises the different actors that make up the tourism industry in KZN. In essence, the map consists of different segments of tourists. These tourists get to visit the province via different channels, for example, travel agents or tour operators. When they reach the province, they patronise different tourism attractions depending on their interests. Whilst in the province for the duration of their stay, the tourists are accommodated through the different tourism establishments.
Furthermore, what the map also represents are the different modes of transport that are utilised by tourist to reach different tourism nodes. In addition, the
tourists also get to utilise various tourism supporting and related industries such as the banks, restaurants, etc. The government at the provincial and local level is a building block on which tourism environment revolves. It is responsible for the formulation of policies and the provision of tourism plant and infrastructure. It also operates through different departments and agencies that are directly involved in marketing the province as a tourism destination. The vibrancy and sustainability of all the major elements of the tourism value chain are depended on production of knowledge and skills, which is provided by education and training institutions. Within this there are also other bodies responsible for promotion of tourism entrepreneurs, especially to transform the industry.

Due to lack of data, it was not possible to quantify the size of the industry other than, for example, the amount of graded accommodation that is available. This is the area that may need to be addressed in future (see Chapter 6). What is clear, however, is that the KZN Tourism Map is more or else the same as the South African Tourism Map. Albeit, there are different dynamics prevailing in the province as opposed to the national picture.

5.5 ANALYSIS OF THE COMPETITIVE ADVANTAGES OF THE KZN TOURISM INDUSTRY USING PORTER’S DIAMOND MODEL

To determine the competitiveness of the tourism industry in KZN, respondents were asked to provide their assessment of the industry using Porter’s Diamond Model. This model was explained before hand in order to ensure that there was consistency in terms of the issues covered. The responses are presented under each element of the Diamond.

5.5.1 FACTOR CONDITIONS

In respect of factor conditions, the conversation with respondents focused not just on the basic and general conditions, but the concern was more on the advance and specialised conditions as these are central to competitiveness. In terms of the basic and general conditions, there were following were noted:
In the tourism sector, the primary tourism potential within the province is in the beach tourism, cultural tourism and eco-tourism markets. The areas of national tourism importance within the province are the Southern Zululand and Dolphin Coast, the Elephant Coast and surrounds, the greater Pietermaritzburg and Durban region, and the Drakensberg region. The tourism products of provincial importance are:

- Arts & crafts routes in Midlands Meander and Albert Falls Amble
- Durban, south coast and north coast beach tourism linked to cultural tourism in the interior
- Drakensberg region
- Greater St Lucia & surrounding big five reserves
- Zulu Heritage & Cultural Trail
- Battlefields Route

It was also identified that KZN has one of the best weathers for tourism, which makes it possible to be patronised all-year-round. Tourism infrastructure and plant such as hotels, casinos, the International Convention Centre, Shaka Marine Park were also identified as important attractors for the province. Generally, the state of highways was also identified as some of the important capabilities that make the province competitive. However, it was also noted that some of the provincial road needed to be maintained.

However, on further probing, there was an admission that there are areas that exhibited glaring weaknesses and a cause for concern, for example:

- Low levels of education; and
- High HIV prevalence.

Secondly, though the province has a big beach destination about it, there were concerns that the loss of blue flag status in most of the beaches especially around Durban could erode this advantage. One respondent was adamant that
the loss of blue flag status was more than just bad publicity for the province’s beaches.

“I wish the City Manager could listen for once, and understand that how important is the blue flag for our tourism drive. If people find out that all our waste water gets into beaches, and these beaches have high levels of faecal concentration which pose serious health risk to beachgoers, we have lost a valuable plot for marketing the province.”

There are other gaps and weaknesses in terms advanced factor conditions. In this regard, the need for the development of 5-star graded accommodation not only in response to the 2010 Soccer World Cup, but also in response to meeting the needs of the high-end of the tourist market, especially overseas visitors, was highlighted. Linked to this is the need to address seriously the challenges of crime and grime. This is a challenge that has been highlighted throughout this study and it permeate all spheres whether national, provincial and local, and seriously denting the South African Travel and Tourism Competitiveness Index of the World Economic Forum.

Regarding the issue of crime as an obstacle to the creation of a favourable climate for the tourism cluster to proper, two contradictory perspectives emerged. On one hand, there is a view which takes the problem of crime as a just perception that is overplayed. In this view crime occurrence is similar to other experiences in large cities like London, New York, and Cairo. There is therefore a feeling that the media is unpatriotic and always sell bad news about the province. In contrast, there is a view which says that the problem of crime is both a perception and a hardnosed reality. This view was shared by the majority of respondents. One of the respondents strongly captured the common sentiment:

“Here is in KZN and South Africa as whole we don’t just mug people, we senselessly kill and maim them. The violence that accompanies petty crime such as cellular phone theft is what tourists are worried about. The bizarre nature of criminal incidents feeds into the increase of the
perception about lack of safety. If in the country you have a Head of Police implicated in serious criminal activities, you can’t help but think this is it – the whole criminal justice system is suspect. Those who still talk about crime as just a perception issue have an affliction of denialism, it has to stop. The reality is that there is currently no incontrovertible evidence to prove that we are winning the war on crime. Our statistics just highlight how serious things have become.”

Service quality was decried as terrible and abysmal. “Research has proved that people lack a culture of excellent service. They are slack, rude, do not smile and unfriendly and exhibit signs of lack of training,” commented one respondent. Furthermore, there is another twist to the quality of service. On the periphery, it may look like its caused by lack of training. But there is disagreement about this. For one respondent, “it is not that there are insufficient people who are trained in the hospitality and tourism industry. There are many unemployed tourism graduates. The tendency is that tourism establishments deliberately employ people who are not trained because it is cheaper for them. They are extremely myopic. They do not care about the damage that this causes to the industry in the long term.”

However, there is acknowledgement that in as much as they are people who have been trained, the quality of service is still a major challenge. Secondly, the skills mix is also out of sync with demand. This is attested to by the fact that the industry is still untransformed in terms of employment equity especially from middle-management to upper levels.

5.5.2 DEMAND CONDITIONS
In respect of demand conditions for tourism products and services, there was unanimity that, notwithstanding the effects of increases in food prices, interest rates and oil prices, the demand for tourism in KZN was still growing. As
evidence of this growth it was highlighted that KZN is still the market leader in domestic tourism.

Table 5.2: VISITORS’ PICTURE 2006

<table>
<thead>
<tr>
<th></th>
<th>DOMESTIC VISITORS</th>
<th>FOREIGN VISITORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of visitors annually</td>
<td>11,9 million trips</td>
<td>1,4 million</td>
</tr>
<tr>
<td>Average spend per trip</td>
<td>R444</td>
<td>R6 132</td>
</tr>
<tr>
<td>Spend – total direct value</td>
<td>R5, 3 billion</td>
<td>R8, 8 billion</td>
</tr>
<tr>
<td>Average length of stay</td>
<td>4,1 nights</td>
<td>6,4 nights</td>
</tr>
<tr>
<td>Source Markets</td>
<td>KZN , Gauteng , E Cape, Limpopo, Mpumalanga</td>
<td>United Kingdom, USA &amp; Canada, Germany, France, Netherlands</td>
</tr>
</tbody>
</table>

As Table 5.2 above depicts, during 2006 the province recorded an impressive 11,9 million domestic trips, which contributed about R5,4 billion to the provincial economy. Similarly, during the same period the number of foreign visitors annually increased to about 1,4 million foreign visitors. This generated:

- An average spend per visitor of R6 132;
- Total market value of R8,8 billion; and
- A length of stay of about 6,4 nights.

There are differences about the reasons why tourist visit KZN. As highlighted in Table 5.3 below most of domestic visitors visit the province to Visit Friends and Relatives (VFR) as opposed to foreign tourists whose main purpose for visiting is to spend a holiday. These small nuances largely explain the differential spending patterns between domestic and foreign visitors. For example, foreign visitors spend more because they use hotels and other accommodation establishment and restaurants, as opposed to the domestic tourists who spend time at their relatives. However, as emphasized by one of the respondents: “domestic tourism plays an important role in the economy as it cushions against seasonality of tourism.” There are also indications that due to the rise of the ‘black diamonds’,

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the buying power of the black majority is increasing as more and more people climb the ladder into the ranks of the middle class. This has therefore acted a great stimulus for domestic tourism growth.

**Table 5.3: PURPOSE OF VISIT TO THE PROVINCE**

<table>
<thead>
<tr>
<th></th>
<th>Foreign Visitors</th>
<th>Domestic Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holiday</td>
<td>59%</td>
<td>71%</td>
</tr>
<tr>
<td>Business</td>
<td>20%</td>
<td>9%</td>
</tr>
<tr>
<td>VFR</td>
<td>16%</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>16%</td>
</tr>
</tbody>
</table>

**Source:** SAT 2007. VFR means visiting friends and relatives

As explained by one the respondents, the reason for low foreign visitors is that “sometimes in 1999, a decision was taken by the Airport Company of South Africa for large flights not to land at the Durban International Airport. This decision substantially contributed to the decline in the number of foreign visitors.” There is therefore some hope that this trend will be significantly reversed once the new King Shaka International Airport is commissioned in 2010.

Increasingly, events such as Comrades Marathon, Dusi Marathon, Vodacom July Handicap Midmar Mile Swimming Race, and Tourism Indaba are now been recognized as major stimulants for tourism demand in the province. This is coupled with major conferences hosted by the International Convention Centre and other sporting events, especially, soccer and rugby. It is for this reason that, as one of the respondents articulated, “…through Durban, the Province is positioned as the events and sporting capital of the continent.”

As highlighted in **Table 5.4** below, Durban and surrounding areas is the most frequently visited of all tourism nodes. What this means is that the benefits of
tourism in terms of economic development are disproportionately skewed in favour of Durban.

Table 5.4 Visitor Figures as Per Tourism Node

<table>
<thead>
<tr>
<th>Tourism Node</th>
<th>Average Trips 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Durban</td>
<td>3.0</td>
</tr>
<tr>
<td>South Coast</td>
<td>2.49</td>
</tr>
<tr>
<td>PMB/Midlands</td>
<td>2.24</td>
</tr>
<tr>
<td>Zululand</td>
<td>2.89</td>
</tr>
<tr>
<td>North Coast</td>
<td>2.31</td>
</tr>
<tr>
<td>Battlefields</td>
<td>2.16</td>
</tr>
<tr>
<td>Drakensburg</td>
<td>1.96</td>
</tr>
<tr>
<td>Elephant Coast</td>
<td>2.05</td>
</tr>
</tbody>
</table>

5.5.3 CONTEXT FOR FIRM STRATEGY, STRUCTURE AND RIVALRY

There were several initiatives that played out positively to provide a context for firm strategy and rivalry. Firstly, the MEC responsible for Culture, Arts and Tourism has established a Tourism Forum consisting of all mayors of different municipalities. The aim of the Provincial Tourism Forum is:

- To stimulate ideas about how develop and transform tourism in the province with the aim of improving quality of products, services;
- To co-ordinate the inputs of various municipalities, provincial government department;
- To facilitate investment in terms of infrastructure, “must-see-attractions” and tourism plants in terms of accommodation establishments; and
To promote branding and marketing of the province as a tourist destination of choice.

There is also the KwaZulu-Natal Tourism Authority, which has the primary role of marketing the province. In addition, local municipalities have Tourism Publicity Associations that market specific tourism offerings of different municipalities. In this regard, the City of Durban has established its own tourism authority, known as Durban Africa.

More significantly, one respondent pointed out that the Durban Chamber of Commerce and Industry, has a Tourism Committee. This committee is constituted by Hotel Associations, Bed and Breakfast Association, Durban Africa, KZN Tourism Authority, Tourism Enterprise Partnership, Tour Operators, Travel Agents, Bus/Coach/Taxi Operators, and the municipality. It addresses issues as wide ranging as marketing the City, crime and grime. This Committee also helps to identify obstacles to investment in tourism and how to accelerate development related to tourism.

It was also found that Southern Sun was the dominant hotel operator in the province. This dominance indicates that firm rivalry is not as intense as expected. However, as a recent development, Bed and Breakfast establishments were mushrooming throughout the province. Significantly, all these “B&Bs were registered with the KZN Tourism Authority, which ensured that all such establishments were graded into different star ratings.” It has been claimed that KZN is the only province that has succeeded to grade all its accommodation offerings. The absence of intense domestic rivalry means that the tourism industry has not striven for the creation and persistence of competitive advantage in the industry.

The local competition was examined in how the business environment impacts the industry and pushes investors to improve, innovate and upgrade, or
alternatively, maintain the status quo. On the whole it was found that competition was largely price-sensitivity driven. There were few initiatives which could be identified as driving innovation, quality and differentiation as firm strategies. This is confirmed by one of the respondents who identified the “absence of Flagship or Internationally-branded hotels as a major drawback for the Province. This apparently extends to top of the range restaurants to attract big tourist spenders.” As a consequence there are also indications that the province has not been able to generate significant Foreign Direct Investment linked to tourism development.

Secondly, limitations in terms of language skills other than English and attitudes towards learning new languages and practices were cited as indicative that most tourism firms in the province have not adopted a global competitive outlook.

5.5.4 SUPPORTING AND RELATED INDUSTRIES

Respondents indicated that several forums exist to bring together different tourism actors though without the idea of cluster in mind. There is also a Provincial Economic Growth and Development Coalition, which is a body established by the Premier and business leaders in the province to stimulate economic growth and development of the province. “This body identifies investment opportunities in different sectors of the economy and tracks how these are respondent to by both the government and the private sector.”

KZN is also characterised by many industries which support and are related to the tourism industry. Amongst these, the banking sector probably ranks as the most important supporting industry especially for foreign tourists. Secondly, traditional Arts and Craft industry; Music, Sports and Culture; are providing the balance necessary to make tourism competitive. From a food industry, KZN also boast a variety of dishes from the traditional African cuisines to the Indian cuisines. Furthermore, the convention and eventing business has become very internationally competitive as bids for international conferences are won based on competition with other Cities in the world. Locally, The Chief Albert Luthuli International Convention Centre has outcompeted Cape Town International
Convention Centre and the Sandton Convention Centre, based on the number of high profile conferences it has held. The Convention Centre has also become a central pivot around which business tourism marketing revolves. Its immense contribution to the local economy has also been recognised. On the venting side, Tourism Indaba has been held in KZN since its launch 20 years ago. According of one respondent, Tourism Indaba “is one of the largest tourism marketing events on the African calendar and one of the three ‘must visit’ events of its kind on the global calendar.”

The Lubombo Spatial Development Initiative and Industrial Development Zones are also providing an avenue through which government is also able to invest in tourism infrastructure that links the province with countries such as Swaziland and Mozambique to promote tourism development on a trans-frontier basis.

5.5.5 CHANCE EVENTS AND GOVERNMENT
One of the respondents cited that within the context of KwaZulu-Natal the ending of the internecine political strife between Inkatha Freedom Party and the African National Congress (ANC) and sister organisations such the United Democratic Front (UDF) ranks as a major breakthrough for tourism growth in the province. This has brought about stability in the macro-economic environment leading to the influx of both domestic and foreign visitors. During the era of violence, nobody wanted to visit the province for fear of being victims of violence. Like crime, violence was a major stumbling block to the development of tourism.

In terms of government’s role, the province is actively involved in developing the tourism industry. It has established KZN Tourism Authority and other tourism development vehicles such as the Greater St Lucia Wetland Park Authority to fuel investment in tourism. Over the period the province has through the Department of Transport succeeded to link the building of new roads infrastructure to tourism nodes especially in the historical and traditional
heartland of the Kingdom of the Zulu. There various policy incentives in place to encourage new investments.

From the above analysis, the tourism industry in KZN seems to be in a healthy, competitive state. It evinces many resource strengths and capabilities in various aspect of the diamond system. However, it also demonstrates weaknesses, which must be addressed in order to improve the competitiveness of the province.

5.6 ACTIVATING THE KZN TOURISM CLUSTER: THE NEXT STEPS

In sub-section 5.2, in response to a question about whether any preconditions existed for establishing a potential tourism cluster in KZN, the dominant finding seems to confirm that conditions were indeed present, but the cluster needed to be activated. Here respondents were therefore asked to suggest how the cluster could be activated taking into account the competitive profile as highlighted above. There were a number of suggestions put forward about the practicalities of activating the cluster. Although the responses did not follow a particular sequence or chronology, in reporting about the different responses, a set configuration was developed.

First of all, according one respondent,

“...it is critical that some kind of “Imbizo” or summit of all major stakeholders in the tourism industry be co-convened by both the government and the private sector, where the idea of a cluster could be tabled for discussion. As a starting point, this could be done through the Provincial Economic Growth and Development Coalition, a body established by the government and business in the province to unlock opportunities for growing and transforming the economy. I believe that this will be an ideal launching pad. The outcome of such a summit could be a Declaration, resolving to activate the tourism cluster and the appointment of a Steering Committee, with the mandate and responsibility of project managing the whole process.”
Another respondent concurred with the suggestion of a platform to propagate the idea of activating the cluster.

“You definitely need a legitimate platform to do this. It is essential that even though government may lead at the beginning, this is seen as a collaborative initiative involving established private sector players within the industry and the community-based organisations or the non-governmental sector. Start small with few but significant players with an emphasis that as the process unfolds, more and more players will be identified and brought on board. The aim is to be as inclusive as possible to maximise support and ideas for taking the initiative forward.”

Secondly, to activate the cluster would require certain actions. The need for collaboration must be demonstrated through highlighting challenges that exist within the industry and the range of benefits that can be derived through collaboration. One respondent asserted that “the initial focus must be on non-threatening things, for example, branding of the province and human resource practices, and systematically and organically move to the business of business.” What was suggested here is that “though issues of industry transformation are in the final analysis likely to preeminently feature on the agenda of the tourism cluster, to win support for broader involvement by significant industry players, such issues needed to be introduced later when the initiative has gathered momentum and reached a particular maturity level.” This is because such issues were seen as divisive and therefore likely to derail the initiative if introduced at the conceptual stage of the cluster process. This view is quite consistent with literature where it has been stressed that building social capital and trust is a first step is to prepare the ground for the cluster initiative. In this regard, the communication process is begun by establishing awareness of potential mutual benefits from clustering among the key relevant actors.
Another idea that is consistent with literature, which is considered a third element of the cluster activation initiative, is that because of the long and arduous process of building relationships and trust in a cluster, appointing an independent facilitator must be considered to drive the process. According to one respondent the criteria for appointing such a person is that amongst others:

“This must be a person not necessarily be associated with any particular entity. But it is essential that this person must have respect of the different parties. She or he must possess above average knowledge about the specifics of the tourism industry and be able to impart new things that stakeholders and partners would see as adding value to the industry. This person must also show quick wins to convince parties that there are benefits to be derived from collaboration.”

Fourthly, it was suggested that the agenda for the activation process can vary but there are critical issues which will need to be engaged. The issues that have been identified by respondents are the following amongst others:

- How to improve customer service in the entire industry;
- Marketing and branding the Province (develop a shared concept about the brand);
- Responsibilities, for example, safety and security, and well-maintained environment;
- What is the state of the industry in terms of competition;
- Measurement for success; and
- Predictability of the policy environment

Finally, it was recognised that the cluster must not be a talk shop, but be action-driven. For this reason, it was stated that part of the activation process must be “the development of an action plan, which spells out clear priority areas for engagement with a clear responsibility matrix and time frames.”
5.6.1 CRITICAL SUCCESS FACTORS FOR THE KZN TOURISM CLUSTER

In terms of critical success factors, there was unanimity amongst respondents that in general the activation of the tourism cluster success will depend on principally on several factors. Seven of these critical success factors as raised by respondents are discussed below.

- Improving factor conditions especially advanced ones. In particular, there is need to address crime and its sister cousin -- grime. Winning the war on crime was a critical success factor to raising confidence levels about the future of the industry. This has to be done by involving the community, business leaders and other stakeholders, especially law enforcement agencies.

- Secondly, improving public transportation system and the use of a “people mover” system to various tourism nodes especially in the City of Durban and Pietermaritzburg was also important. “Access to safe and reliable public transport can facilitate an efficient and co-ordinated movement of tourists from one node to another”, commented one respondent.

- Thirdly, there was a need to drive the skills revolution so that an appropriate mix of skills was available within the industry and supporting industries. In this regard, issues about how to continuously delight customers instead of striving to merely satisfy them, needed to be placed high on the agenda so that perceptions of rudeness and other negatives were eliminated once and for all. Delighting customers must therefore be integrated in all different skills levels. The skilling of people must also be about continuous learning and development and should be done in proper experiential settings to bridge the gap between theory and practice.

- Fourthly, it was highlighted that it was important to ensure funding was available for project managing the cluster and for entrepreneurs who wanted to start business in tourism or to expand on existing businesses. Availability of funding would also be important to ensuring that the industry is transformed and representative. Alongside this, Foreign Direct
Investment should be facilitated by packaging attractive investment opportunities to entice investors.

Fifthly, it was critical to drive the research and development agenda especially in areas of product development. In this regard, extensive integration of business with the academia was fundamental to the incubation of new ideas about how to reinvent the industry to higher heights and to make it innovative and competitive.

Sixth, it was also important that an appropriate structure or home be established or found to enhance local business and institutional connections, linkages and networks both a vertical and horizontal level. To do this appropriately, it was essential that industry leadership be developed at various levels of the industry.

Finally, some form of performance management system needed to be put in place to monitor and evaluate how the cluster functions. This would help stimulate responsibility and accountability for the success of the cluster. Together with performance management it was also eloquently stressed by one of the respondents that what was needed was “leadership with vision and passion to grow the tourism industry cluster so that we can compete with the best in the world. These are the leaders who will turn God’s natural gifts and blessings to the province into a real gold mine.”

5.7 STRATEGIC MANAGEMENT CHALLENGES OF SUSTAINING THE TOURISM CLUSTER ONCE IT HAS BEEN ACTIVATED

In modelling and activating a potential tourism cluster in KZN, one of the issues which needed attention, was to identify the strategic management challenges of sustaining the cluster once it has been activated and the implications for managers whether in the public sector, private sector or non-governmental organisations. To this end, the respondents were asked to identify what they thought were the strategic management challenges of sustaining an activated cluster and the implications thereof for managers. The answers were varied and disparate. Six broad patterns were however recognised.
The first challenge identified related to the paradigm shift in thinking about strategy. Here it was recognised that there is a need to appreciate that the development of a tourism cluster will require a different inflection point as opposed to current strategy models such as the five forces model and even Porter’s Diamond, which have since become standard decrees in the strategic management arsenal. Instead of over-reliance on models that are seen as static, one respondent argued:

“...there is a need to view clusters with a lens of complex adaptive systems that are subject to decline and renewal. In this frame, traditional strategic management which has been dominated by, on one hand, the planning school, which portrays strategic managers as analysts, equipped with sophisticated forecasting tools, is longer feasible. In our milieu, the speed of change seems to intimate that strategic analysis can no longer be expected to result in deep knowledge of and insights about the operating environment. Nor is it possible, on the other hand, to use industry structure and analysis to adopt defensive competitive posturing. There is thus a strong appeal to use complex theory of strategy as way to forge closer linkages amongst different parts of the tourism cluster.”

Another respondent stressed that:

“From my experience in working with the Auto Cluster, I'm in total agreement that rather than designed processes, cluster organisations must be represented as interactive, emergent and self-organising processes. Organisations in a cluster become what they are as a result of myriad interactions occurring within and outside the individual organisations and the cluster itself; and at the borders between the individual organisations and the cluster, and their environment. For these reasons there is a lot that can be learnt from understanding how organisations in a cluster co-evolve and strive on the basis of coopetition.”
In practice, what this means is that the future cluster development strategy will inevitably be semi-coherent, and emergent rather than complete. This also means that whilst it will still be relevant to conduct industry and environment analyses, the outcome of such analyses will not be seen as conclusive and the end in themselves. Rather these analyses will be regarded as some of the inputs needed to strategically respond to the ever changing and evolving cluster dynamics.

The second challenge identified is what one of the respondents refers to as “breaking out of the red oceans.” It was explained that the nature of this strategic challenge is “about encouraging companies to break out of the accepted boundaries that define how they compete to look systematically across the boundaries of the markets and products of the cluster, to create what strategy writers such as Kim and Mauborgne refer to as the blue oceans strategy.” From this perspective four questions needed to be used to challenge the current industry’s strategic logic and business model. These questions were explained as follows by one the respondents:

- The first question forces companies in the cluster to consider eliminating factors that companies in an industry have long competed on. Often those factors are taken for granted even though they no longer have value or may even detract from value. Sometimes there is a fundamental change in what buyers’ value, but companies that are focused on benchmarking one another do not act on, or even perceive, the change.

- The second question forces companies to determine whether products or services have not been over-designed in the race to match and beat the competition, such that companies over-serve customers and keep increasing their cost structure for no gain.

- The third question pushes a company to uncover and eliminate the compromises that the industry has been forcing customers to make to their detriment.
The fourth question helps companies in the cluster to discover entirely new sources of value for buyers and to create new demand and shift the strategic pricing of the industry.

It is argued that by pursuing the four questions companies in the cluster can gain insight into how to drop the industry cost structure as against competitors and simplify their business model. Secondly, companies in the cluster will be provided with insight into how to lift buyer value and create new demand across alternative related and supporting industries to offer buyers an entirely new experience, while simultaneously keeping its cost structure low. This is the essence of what is needed for companies to be strategically innovative.

Linked to the above two challenges, the third challenge is the need to ensure that relevant, reliable, accurate and up-to-date data is collected to assist in the ongoing strategic and competitive analysis of the tourism industry in the Province. Data sourcing will require the cluster to develop solid institutions for business intelligence and data warehousing. “There is a need to develop rock-solid systems for data capturing so that the competitive profile of the cluster and the province as a whole are processed into relevant information for cluster stakeholders to make informed decisions on a regular basis.” It has been emphasised by one of the respondents that:

“We need to establish a central repository of information and accountability and responsibility to update this information so that its reliable and valid. Furthermore, systems need to be put in place to ensure that this information is shared and disseminated in manner that is easily digestible to all stakeholders, devoid of unnecessary technical jargons. “

As a fourth challenge, it was highlighted that activating and developing a cluster must not be anchored in a way that is seen as competing with other strategies for facilitating SMEs and private sector development in general. Rather, “it must be
driven as a complementary addition to other initiatives to stimulate economic development, especially at a micro-level.” Furthermore, as aptly captured by one of the respondents:

“There are people who have their own fixations about economic development strategies. It is therefore absolutely imperative that there must be no contestation between the concept of a cluster and their economic labels. However, it is critical that the distinct elements about a cluster be driven home at every given opportunity.”

Fifth, the most strategic management challenge that needs to be cultivated is that activating a cluster will require strategic leadership. One respondent intimated that the tourism cluster in KZN will need “…leaders with a vision and able to rally every troop together around a common vision.” Not only are the visionary or transformation leaders critical, but as another respondent proposed,

“…these leaders must be identified within the industry itself. These are leaders who will be able to mobilise all the doubting Thomases of the industry into a coherent force that recognises the benefits of clustering and to be able and willing to work with other partners to co-determine and co-create the vision for a sustainable, innovative, inventive, community-sensitive and value-adding tourism cluster”.

Finally, in thinking about clusters from a strategic management point of view, the challenge will be to accept that clusters are not static a phenomena, they are dynamic and subject to continuous change. In this regard, two suggestions coming out from respondents are that first,

“…the life-cycles of clusters will need to be continuously revitalised so that as they grow and mature, no decline must be allowed to set in. The core to achieving revitalisation is by setting stretch goals for innovation and research and development and human capital development. Cluster leaders must therefore lead the innovation crusade within the industry by
working together with research and academic institution, and global organisations such as UNWTO and WTBC.

The second, suggestion is that cluster participants must focus on the future and not be distracted by petty jealousies and professional rivalries. The most emphatic strategic challenge is as articulated by one of the respondents, thus:

“Going forward, clustering will need to be more about learning how to cooperate and work together on tangible projects that will result in a win-win for everybody. But this does not mean that individually, as entrepreneurs, we suffocate our competitive edge and reduce competition to the lowest denominator. We will still cooperate and compete to be innovative and continue to raise the bar in the way we perfect our art and service.”

In terms of strategic implications posed by the identified strategic management challenges for managers, one overarching response was voiced. That is, that clustering is not a panacea for problems facing the tourism industry in KZN. But there is need for all managers to promote unity of purpose in seeking ways and means of developing the industry for the future challenges that lie ahead.

5.8 FUTURE PROGNOSIS

As a final research task, respondents were asked to summarise their future prognosis for the tourism industry in KZN. Generally, all respondents were quite optimistic about the future of the industry. Secondly, there was also a high degree of confidence that the level of competitiveness of the tourism in KZN and conditions for activating the Provincial tourism cluster are likely to be enhanced in future. Although different respondents argued that the drivers or catalysts for change were likely to flow from a plethora of factors, but primarily the impact of the following drivers were seen as more pronounced.
Firstly, the 2010 Soccer World Cup is one of the biggest events that promise to unleash the tourism industry in the province to a new pedestal. The benefits were likely to be immense:

- Crime will come down as they will be institutionally addressed especially in Cities;
- More tourism nodes especially targeting the rural hinterland and community-based tourism in the townships are likely to develop;
- Attitudes to foreign and domestic visitors are likely to improve tremendously; and
- Standards of services excellence and productivity are likely to be taken to levels.

The post-world cup externalities are also likely to be positive. All of this is however depended on South Africa being able to organise the most memorable African World Cup experience. The risks of failure are anticipated to be low at this stage.

The second is that the building of the King Shaka International Airport and the Dube Trade Port, both scheduled for completion before 2010 Soccer World Cup, are also likely to play a pivotal role in the provinces international marketing drive. Previously, no international flights flew directly to the province and this is about to change in a big way. The province expects to increase the number of foreign tourists as the cost of visiting the province would be reduced by flying directly to the province as opposed to current arrangements, which necessitate that tourist must first go either to Johannesburg or Cape Town before reaching KZN.

The third driver is that a mega $5 billion (R44 billion) entertainment theme park, resort and mixed-use destination development is planned for the KwaZulu-Natal North Coast by the Dubai-based real estate heavyweight, Ruwaad Holdings. This development, to be known as the AmaZulu World,
is set to be the largest single development to be initiated in the African history.

Accordingly, the overall impression was that the outlook for the industry is extremely positive, and there was hope that challenges around crime and grime, will also be dealt a heavy blow in preparing for 2010. The feel good factor that was likely to be generated by the 2010 event was expected to inspire more positive and collaborative actions, which would benefit the province and its peoples well into the future.

In conclusion, this chapter analysed data that was generated through semi-structured interviews and document analysis. In the last chapter, conclusions drawn from the study are highlighted and recommendations going forward are proposed.
CHAPTER 6

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

6. INTRODUCTION

In Chapter 5 a cogent analysis of data emanating from interviews with different respondents and drawn from document analysis, was presented. This chapter provides a broad discussion and a summation of concluding remarks about the study as whole. It also presents specific recommendations to plot the way forward regarding the activation and development of the KZN tourism cluster based on its potential. In particular, it suggests areas for further research.

6.1 DISCUSSION AND CONCLUSIONS

It is clear from the extensive literature review which has informed this study that the construct of cluster-based economic development has grown in leaps and bound since it resurfaced and popularised by Professor Porter in 1990. Generally, the conclusion is that contrary to the aversion by Martin and Suley (2003:6) that clusters seem to “have become a world-wide fad, a sort of academic and policy fashion item,” evidence suggests that clusters are here to stay as they fundamentally seek to influence and alter the way the micro-economic landscape is changed. What the literature review has powerfully conveyed is that in the context of globalisation, location has taken a life of its own relevance. Various studies agree that the benefits of clustering far outweigh the perceived disadvantages. There exist today many forms of industry clusters across a range of industries. However, as literature alluded to, more empirical studies are needed to support evidence how clusters realise the benefits that are claimed by using both qualitative and quantitative methods, to establish the real causal nexus between the cluster and the benefits that are claimed.

In respect of the tourism industry in KZN it has been established that most of the critical mass necessary for a cluster to develop are present. However, most actors do not see themselves as a cluster, which means that the cluster is
passive. Secondly, as correctly voiced by respondents and supported in literature, there are many benefits that can be derived by activating a tourism cluster. Although most of the benefit are similar to what has been identified in literature, there are some that are peculiar to the tourism sector itself in KZN and perhaps contextual in that they mirror the broader challenges of the industry in South Africa as whole. For example, the following are peculiar to KZN and South Africa:

- The need for transformation in the industry;
- The requirement to address the disparities between skills demand and supply through the sector skills development plans; and
- The promotion of service excellence and the need for an integrated approach to addressing safety and security and grime.

The study has also discovered various tools and processes that can be used to map the KZN tourism cluster. In the process this has helped to suggest a framework for understanding the province’s tourism map. However, the limitations of being able to quantify the size of the industry are quite obvious. These are caused by the absence of reliable and accurate data that sits centrally in the province. This is a weakness that happens despite the sterling job done by the Research Unit of the KZN Tourism Authority, which has by far the most accessible information resource both on the website as well in the Resource Centre compared to other tourism authorities in South Africa.

In respect of issues of competitiveness, KZN as a tourist destination has many excellent pockets of competitiveness. However, in terms of factor condition, a lot is still needed to develop advance conditions across different tourism nodes in the province and not just around Durban as is the practice presently. In particular, the ‘must see attractions’ in terms of tourism infrastructure are needed and those that are there need upgrading. There are concerns that the demand conditions for international tourist market are lacking behind. On the other hand, being the leader in terms of domestic market would also require innovation to maintain that market leadership spot. The weaknesses are also related to weaknesses in the
existing advance factor conditions such as Five Star Graded accommodation to
cater for the needs of upmarket tourists both domestic and foreign. Similarly,
there are concerns that the concentration of ownership of tourism plants affects
competitiveness in terms of differentiation and innovation. As a result competition
has been reduced to price and rivalry is limited in terms of product offerings. It
has also been noted that the government is playing a critical role in developing
tourism. However, in the absence of coordinated platforms for identifying and
responding to constraints facing the industry, the impact of government action
and policy instruments become limited. As a consequence there are many
missed opportunities which are not been taken advantage of.

One of the major contributions of this study to cluster research is in the
identification of strategic management challenges that cluster strategists face. In
particular, the suggestion that cluster studies could immensely develop by using
the chaos theory of strategy to shift the paradigm of strategy thinking and
therefore the use of other tools and methods of analysis, is a significant
contribution to cluster studies that would warrant further studies.

This study has also suggested practical ways in which the tourism cluster in KZN
could be activated. It also suggested critical success factors that are needed for
the activation process to succeed. As identified in literature, this study confirmed
that appointing an Independent Cluster Facilitator was an important requirement
to build trust amongst cluster participants and to spearhead the whole cluster
activation process. Another significant finding which concluded this study is that
the prognosis going forward is that the outlook for the tourism cluster in KZN is
extremely positive. This level of optimism is predicated on the assumption that
South Africa is going to host a successful 2010 Soccer World Cup, which
provides a catalyst to addressing existing problems such as crime and service
quality; and the King Shaka International airport, which will inevitably be expected
to increase the number of foreign arrivals using direct flights to KZN.
6.2 RECOMMENDATIONS
To conclude this study, the following five recommendations are proposed as a basis of developing the tourism cluster model for the Province of KwaZulu-Natal:

6.2.1 THE ACTIVATION AND DEVELOPMENT OF THE KZN TOURISM CLUSTER
Given the fact that the KZN tourism industry already possesses most if not all preconditions for establishing a potential cluster, it is recommended that the cluster be formally activated and developed. This initiative should be spearheaded by the MEC for Finance and Economic Development. This should be done through a two-pronged approach. Firstly, a provincial-wide cluster initiative must be embarked upon using the Growth and Development Coalition as a forum to launch this initiative. This will ensure that the initiative is co-driven by government and business at a provincial level. Simultaneously, parallel initiatives should also be launched in established tourism nodes such as in Durban. This will assist in ensuring that the cluster benefits by utilising existing platforms where players akin to a cluster are already meeting even though they do not call themselves a cluster and are unconscious that their relationships could be taken to new levels if they could formalise a local cluster initiative. This arrangement will feed organically into the provincial-wide tourism cluster initiative. In this regard, it is also proposed that District Municipalities be organised as the basic unit of the provincial-wide cluster initiative, to help galvanise more support in different localities where the potential to develop tourism are in abundance.

6.2.2 THE APPOINTMENT OF AN INDEPENDENT CLUSTER FACILITATOR
Based on the above recommendation, it is recommended that an Independent Cluster Facilitator (ICT) be appointed by the MEC for Finance and Economic Development in consultation with industry stakeholders to steer the cluster activation and development processes. Furthermore it is proposed that the criteria for the appointment of the ICT should encompass the following amongst others:
The ideal candidate must possess above average knowledge about the industry;
Understand group dynamics and conflict management;
Be respected by players within the industry;
Be passionate about the development of the tourism industry; and
Prior experience in working with other cluster initiatives would be an advantage.

It is also proposed that the ICF must work under the careful watch of a Cluster Steering Committee, which shall report to a bigger Cluster Forum, which will be constituted by all industry relevant stakeholders.

6.2.3 CLUSTER MAPPING

It is also recommended that an in-depth mapping of the KZN Tourism Cluster be conducted by the Department of Economic Development in consultation with industry stakeholders with the view to identifying all component of the cluster map. The aim of this mapping exercise would be to help in identifying all stakeholders who should be invited to participate in the cluster activation initiative and to develop an understanding about the linkages amongst different components and how these could be further strengthened in future. In addition, it is proposed that the use top-down and bottom-up approaches be utilised by employing both quantitative and qualitative approaches.

6.2.4 CLUSTER COMPETITIVENESS ASSESSMENT

The absence of a competitiveness analysis relative to the tourism cluster was observed. Thus, it is recommended that the results of the current exploratory study be utilised as a basis of conducting a robust and comprehensive analysis of the competitiveness of the KZN Tourism Cluster using both qualitative and quantitative research tools. This should be commissioned by the Department of Economic Development in consultation with industry stakeholders. Such an analysis would be utilised as an input in designing an action plan for activating and developing the cluster both in the short to medium terms. Furthermore, this
would be an input into addressing the weaknesses and capability gaps identified by the Travel and Tourism Competitiveness Index insofar as South Africa’s competitiveness is concerned.

6.2.5 FURTHER RESEARCH

It is recommended that further research be done in mature clusters to determine the actual dynamics workings of clusters in practice and how they realise the benefits that cluster theory claims are benefits empirically associated with industry clustering. Such studies will ensure that the profundity of the cluster construct is enhanced through more empirical evidence especially drawn from the context of developing countries.

Furthermore, it is recommended the strategic management challenges and implications of industry clusters must be further researched using chaos theory or complex adaptive systems theory. This will help addressing how accelerate the process of coevolution and cooptition to stretch the innovative and competitive capabilities of clusters. In addition, such a research would also help in developing flexible tools for strategy management beyond Porter’s Diamond Model or the Five Forces Model, which are seen static and out of sync with realities of change that organisations need to constantly respond and adapt to.

In conclusion, this study has demonstrated that cluster-based economic development strategies provide an important avenue to address micro-economic policy constraints. However, they must not be seen as panacea to solve all that is wrong about different industries. In particular, the study has confirmed that no cluster can be activated unless certain pre-conditions exist. Lastly, the study has in unearthing strategic management challenges that managers operating in the cluster context need to contend with, if clusters are to develop and be sustained.
REFERENCES


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APPENDIX A

The California Wine Cluster

- Grapestock
- Fertilizer, Pesticides, Herbicides
- Grape Harvesting Equipment
- Irrigation Technology

- State Government Agencies (e.g., Select Committee on Wine Production and Economy)

- Growers / Vineyards

- Educational, Research, and Trade Organizations (e.g., Wine Institute, UC Davis, Culinary Institutes)

- Wineries / Processing Facilities

- Winemaking Equipment
- Barrels
- Bottles
- Caps and Corks
- Labels
- Public Relations and Advertising
- Specialized Publications (e.g., Wine Spectator, Trade Journal)

- California Agricultural Cluster

- Tourism Cluster

- Food Cluster


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## APPENDIX B

### INTERVIEW TEMPLATE

<table>
<thead>
<tr>
<th>What is your understanding of the concept of an industry cluster? What conditions need to be present for cluster to exist? Do you think such conditions exist in the case of the tourism industry in KwaZulu-Natal?</th>
</tr>
</thead>
<tbody>
<tr>
<td>What in your view are the benefits and disadvantages of industry cluster? How would map a potential tourism cluster in KZN? What factors would you take into account? If you were to assess the competitiveness of the KZN tourism industry, how would you assess the following: <em>(Please note that the terms must be explained)</em></td>
</tr>
<tr>
<td>Factor Conditions</td>
</tr>
<tr>
<td>Demand Conditions</td>
</tr>
<tr>
<td>Industry Strategy, Structure &amp; Rivalry</td>
</tr>
<tr>
<td>Related and Supporting Industries</td>
</tr>
<tr>
<td>Chance events and Government</td>
</tr>
<tr>
<td>What are the strategic challenges for establishing a potential cluster model in the tourism industry of KZN?</td>
</tr>
<tr>
<td>What are the critical success factors for activating the tourism cluster?</td>
</tr>
<tr>
<td>How you assess the future of the tourism industry in KZN what are the likely key drivers going forward?</td>
</tr>
</tbody>
</table>