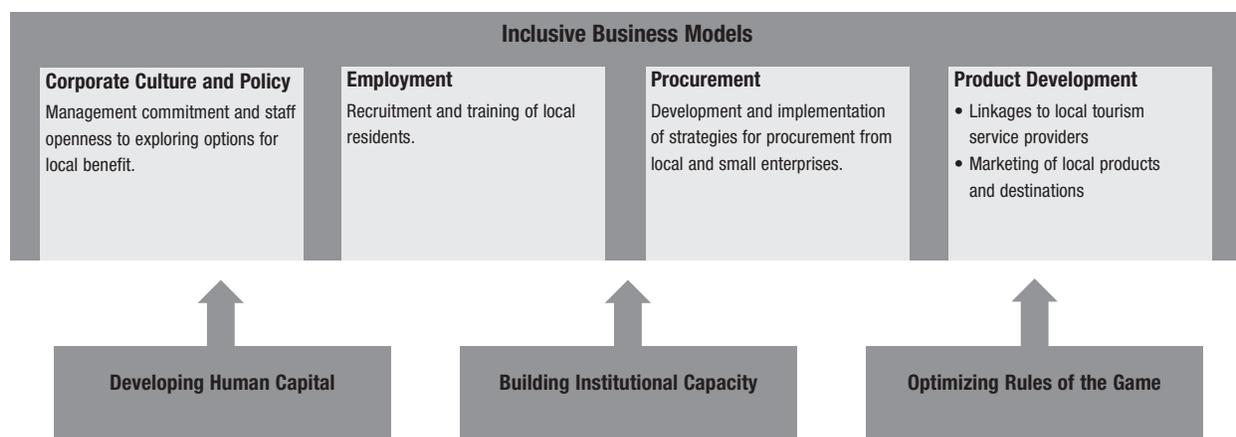


4 ■ Business Strategies for Expanding Economic Opportunity

Tourism companies can enhance their benefits to local communities, while also enhancing customer satisfaction, by consciously developing inclusive business models – going beyond philanthropy to explicitly use their value chains to create and expand local economic opportunities. Such approaches require senior-level leadership and commitment, and include comprehensive local employment practices and business linkages between hotels and local enterprises in tourism and other markets, whether in the formal or informal sector.

In many cases, inclusive business models need to be supplemented by other strategies that overcome local market failures and lack of capacity. These include efforts to develop human capital; build local institutional capacity, for example in business associations and shared training facilities; and improve the “rules of the game” or broader enabling environment. This section looks at these strategies in more detail.

BOX 3 INCLUSIVE BUSINESS MODELS



4.1 Creating Inclusive Business Models

The United Nations Development Programme (UNDP) defines “inclusive business models” as business models that include the poor as employees, entrepreneurs, suppliers, distributors, retailers, customers, or sources of innovation, in ways that further their human development and that are financially, environmentally, and socially sustainable.²¹ Tourism companies can build such models in a number of ways, in particular by increasing the quantity and quality of local employment and procurement.

4.1.1 Improving Employment Practices

The extent to which local hiring enhances economic opportunity and builds human capital assets depends on a company’s recruitment practices and willingness to train. Many tourism companies already employ relatively large numbers of local people.²² This alone has significant local economic impact. Such impact becomes even

more significant when companies offer reasonable wages, working hours, and job security. Complying with international labor standards in these and other areas can help tourism companies ensure that workers are building appropriate skills and financial assets, while also mitigating their own reputation risk. Some companies, such as Serena hotels, have gone even further, paying above minimum wage and offering employees pensions, life insurance, and other financial support services. Companies' economic opportunity impact can also be enhanced by hiring and training local residents for management positions in addition to low-paid, unskilled jobs.

4.1.2 Building Business Linkages to Local Tourism Products and Services

Hotels and other tourism companies can help small-scale tourist product and service providers in both the formal and informal sectors to market themselves by linking their guests with local restaurants, artisans, tour guides, museums, natural healers, and traditional performing artists. Hotels can accomplish this by:

- directly advertising the goods and services
- using local products in their décor and informing guests of their source via labels and other material
- allowing local small businesses to sell within their establishments, and
- establishing contractual agreements with local cultural entrepreneurs to bring interested guests to cultural events or workshops.²³

Such initiatives are not always commercially viable. On the island of St. Lucia, for example, it has proven challenging to draw tourists to cultural events because they have come specifically for all-inclusive sun and beach experiences.²⁴ If cultural products seem unlikely to appeal to the clientele, sourcing other products locally and providing employment and training may be better methods by which to grow economic opportunities.

4.1.3 Procuring Other Supplies and Services Locally

Sourcing other products and services from local suppliers is often an effective and under-utilized way to expand economic opportunities through core business activities. Products can include food, furnishings, guest amenities, and other local items.²⁵ A hotel can also contract local companies to provide a variety of services, from laundry and gardening to transportation and maintenance. During construction phases, hotels can use local contractors, providing significant, though short-term, employment and income generation options. With an added ingredient of mentoring for small firms and training for workers, this can be translated into creation of a more skilled local enterprise base in the long term.

A relatively small increase in local procurement can often inject more money into a local economy than would be possible through philanthropy.²⁶ Spier Estate, for example, realized that shifting 10% of its total procurement to local small enterprises would inject as much money into the local economy per year as its traditional substantial philanthropy program, and with more dynamic impacts on local economic development. It proceeded to overhaul its procurement practices as a result.²⁷

In some instances, incorporating local enterprises into hotel supply chains supports more households than direct employment.²⁸ In addition, some hotels that buy local agricultural products have had substantial enough

impact to lift farmers above the poverty line, as in the case of a Sandals resort in the Caribbean whose melon purchases helped raise 70 farming families out of poverty.²⁹

Not only can local procurement help farmers and non-agricultural enterprises move from subsistence into surplus income generation, it also can have dynamic effects. For example, it can help small farmers and enterprises open bank accounts and improve their creditworthiness. It can stimulate entrepreneurs to produce new items and/or sell existing products to other markets, thereby reducing dependence on the tourism industry. In some cases, local procurement initiatives can result in the creation of small industry clusters and entirely new value chains.

Detailed analysis of the extent to which hotels use local products and services is still lacking in many countries. Although anecdotal evidence suggests the number is increasing, research in southern Africa suggests that most resorts and hotels do not yet maximize their use of local products and services.³⁰ In many cases there are challenges to sourcing locally, even if a hotel operator is willing. Local products may not be diversified enough, the quality may be too poor, or the quantities supplied may be inadequate or unreliable.³¹ Local residents may also lack the requisite business skills or understanding of tourists' tastes. Larger companies can help local suppliers develop business management systems, such as stock plans and quality assurance systems, and advise on packaging and marketing. They can also help local enterprises understand what quality is required and how to rise to that standard. Mentoring is often critical to success in this area. While mentoring can be time-consuming, it offers an opportunity for employees to volunteer in their local communities and can make a significant difference in the transfer of new skills and business practices.

In summary, local procurement strategies, while not always easy to implement, offer a high-potential approach to expanding economic opportunity, and one that many companies can further develop.

4.1.4 Establishing Community Revenue or Profit-Sharing Schemes

Another kind of inclusive business model offers local communities direct ownership options or financial stakes in the venture's success. This model is currently being explored by a number of extractive industry companies, with some interesting mechanisms being established that may have relevance for the tourism industry. Mechanisms can range from full-fledged joint venture agreements to community-based foundations and trust funds. Some tourism facilities have created joint ventures, with a share of the profits accruing to communities, including individuals or vulnerable groups who might not have the capacity to participate in the tourism industry through employment or procurement. Such initiatives offer great potential, but can be challenging to establish, especially when it comes to determining appropriate profit-sharing structures and fair allocation of funds within the community itself.

4.1.5 Sharing the Distribution of Opportunities Among Different Groups

Distribution of opportunities among different income and ethnic groups is an important issue for hotels to consider as it can create negative or positive dynamic effects depending on how it is managed. Hotels can play leadership roles in ensuring that their management and operational staff profiles reflect the diversity of surrounding areas. This can be challenging because after initial relationships and processes are established with

employees and suppliers, the social networks of those individuals often play key roles in recruitment and bidding pools, whether or not the company explicitly favors one group over another.³² While there is no easy answer, simply being aware of this challenge can help improve practices.

4.2 Developing Human Capital

The degree to which a hotel or resort invests in the training of its employees and the development of skills more widely significantly influences its long-term economic opportunity impact.

First, effective on-the-job technical and management training programs not only help to improve customer service, but also enable employees to develop transferable skills that can improve their future employability within the tourism industry and beyond. In some cases, former employees leave to establish their own small enterprises that become suppliers to their former employers.

Second, many hotels need to train their staff on public health and hygiene to protect the wellbeing and safety of guests. This learning is often then applied at home, helping to improve household and community health and build human capital, enabling greater productivity and economic security. In locations facing diseases such as avian flu, HIV/AIDS, tuberculosis, and malaria, for example, hotels are developing policies and practices that can be shared more widely in local communities. Many hotels also carry out driver safety training for staff responsible for transporting guests, and this can also benefit local communities, especially in emerging markets where road traffic injuries are growing rapidly as a health burden.

Third, as outlined earlier, companies wishing to procure locally often need to provide training and mentoring to suppliers in the areas of management systems, customer relations, and marketing in order to obtain goods and services that meet quantity, quality, and reliability requirements.³³ Once again, wider dissemination of such skills and competencies can benefit both the company and the local economy over the longer term.

Fourth, hotels and tourism companies can support industry-wide efforts to train young people and support schools and universities. For example, they can contribute their knowledge or scholarship money to college courses and training centers so that training is provided for large numbers of people, strengthening the talent pool and saving themselves the direct costs of training. The American Express Foundation, for example, founded and contributes to the Global Travel & Tourism Partnership. This Partnership works together with education authorities, tourism ministries, and companies to provide in-depth tourism sector training to young people around the world. The Partnership currently serves more than 418,000 secondary school students and young adults.³⁴

4.3 Building Institutional Capacity

Effective institutions are essential to the success of any industry and economy. These can include traditional institutions such as public sector bodies, local business associations, chambers of commerce, associations of tour guides, community-based organizations, NGOs, universities, and training centers. Increasingly, they also

include multi-stakeholder or cross-sector alliances in which companies, donors, government bodies, and civil society organizations come together to tackle particular development challenges or sets of challenges.

In the Gambia, for example, the British Department for International Development (DfID) supported the facilitation of a multi-stakeholder initiative that included the Gambian Tourism Authority and formal and informal tourism industry enterprises. The initiative led to the creation of codes of conduct for crafts and juice sellers, which helped create cohesion and self-regulation in those parts of the informal sector, while reducing harassment of tourists. The initiative was seen to be sufficiently helpful that after the DfID project ended, the group involved (composed of the Gambian Hotel Association, the Ground Handlers, an association of informal sector members, the Gambian Tourism Authority, and four representatives of the foreign tour operators) chose to create a Responsible Tourism Partnership to continue the work.³⁵

In South Africa, the Business Trust has partnered with the Department of Environment and Tourism since 2000 to establish a comprehensive Tourism Enterprise Program (TEP) aimed at supporting firms in this sector to develop commercially viable transactions that will help to create jobs and thereby reduce unemployment and poverty. The TEP provides institutional support and services that help emerging tourism enterprises gain access to finance, skills, technical support, and markets, often by creating business linkages between these enterprises and established companies in the sector. The Business Trust is itself an interesting new model of partnership between business and government, which brings together the senior executives of many of the country's major corporations with government cabinet ministers to identify priorities and implement projects aimed at stimulating employment, building capacity, and enhancing trust in South Africa. Although few of its member companies are active in the tourism sector, the Business Trust identified tourism as a priority sector for job creation and one that needed greater institutional capacity in order to achieve its potential. TEP estimates that tourism growth created over 30,000 full-time equivalent job opportunities between July 2000 and June 2006 and that its partnerships assisted some 3,000 enterprises during the same period.³⁶

Such multi-stakeholder alliances, whether at national or regional levels, constitute one of the most interesting areas of institutional innovation in the field of international development. Companies from many industry sectors are starting to create or participate in such alliances, either within their own sectors, as in the Gambian tourism example, or more broadly, as in the case of the Business Trust. Companies in the tourism sector have an opportunity to play leadership roles in helping to strengthen and establish such structures more widely.

The tourism sector can also play an important role in working collectively to help strengthen the more traditional institutions that are critical to expanding economic opportunity. For example:

- **Mentoring programs for SMEs:** Joint mentoring initiatives targeted at specific small, medium and micro-entrepreneurs and/or at addressing specific sets of challenges that these entrepreneurs face is a key area for greater collaboration. Spending time with entrepreneurs to provide commercial advice, share contacts, explore customer needs, review quality excellence, and discuss health and safety standards are all invaluable contributions tourism companies can make.
- **Training institutions:** Tourism companies can work collectively through business associations or establish dedicated training centers or hotel schools to train local employees and suppliers, transfer international quality standards, and build other tourism skills that will enhance the reputation of the overall destination.

Joint programs can not only be more efficient, but also reach larger numbers of people and help standardize effective training methods.

- **Financial and business service institutions:** Tourism companies can work with local business associations, business development services providers, and community-based organizations to enhance their capacity to provide micro-credit and other financial services; credit ratings for local entrepreneurs within the tourism value chain; business and technical advice; and mentoring and networking opportunities.³⁷
- **Producer associations:** Tourism companies can support the formation or strengthening of local producer associations, which can provide marketing and wholesale facilities that individual entrepreneurs cannot afford.³⁸
- **Research institutes:** In developing countries where tourism is a major industry, industry leaders could do more to support research to evaluate tourism's development impact, identify key risk areas, and explore ways of enhancing impact.
- **Industry codes of conduct:** Tourism companies can work jointly with local associations to develop codes of conduct for themselves and for local entrepreneurs in order to ensure that the destination complies with the best international standards, helping to manage risk and to improve the region or country's reputation.
- **Community representation and leadership:** Partnerships or joint ventures with local communities may require strengthening community institutions and developing leadership and negotiation skills and decision-making capacity. As well, it can be important to help community and public sector leaders to develop an appreciation for the commercial challenges and realities of the industry so that expectations are realistic.

4.4 Helping to Optimize the “Rules of the Game”

Regulatory and policy frameworks help determine how well a local or national economic system works, and often how successful a particular industry can be in terms of competitiveness and inclusiveness of the poor. Hotels and tourism associations that aim to create inclusive business models may find that they must engage more proactively in shaping policy and legal environment to support their efforts. They can also help local community leaders to gain more effective voice in decision-making.

Areas where tourism companies can play a useful role in optimizing the “rules of the game” include the following:

4.4.1 Improving the Enabling Environment for Small Enterprise Development

Hotels that try to source locally often find that laws penalize small-scale entrepreneurs in the informal sector and make it excessively difficult to enter the formal sector. In Zambia, 74 different licenses were required to establish a small local tourism business.³⁹ Hotels can work with governments to create regulatory environments that allow small businesses to formalize and to operate more efficiently.

4.4.2 Preserving National Heritage and Wildlife Assets

These assets are essential components of the tourism experience in many countries, but legal and regulatory incentives for local communities to preserve them can be lacking. For example, in locations where wildlife poaching is a threat to both the security and success of tourist operations, poachers often come from local communities and undertake this activity because they have no other source of income or in some cases even food. In such situations, the success of anti-poaching efforts may depend on government, industry, and/or donors helping to establish economic alternatives. In some cases, the challenge is a lack of property rights – if local communities have no sense of ownership, or receive no benefit from the natural and cultural assets in the areas where they live, they have little incentive to protect them. Joint delegations of tourism companies and community leaders can sometimes be effective in gaining government support for more effective and equitable approaches to land tenure and other property rights issues.

4.4.3 Encouraging Government Incentives and Guidelines for Responsible Tourism

Tourism companies can also advocate for governments to adopt policies and offer incentives that reward enterprises that can demonstrate they have explicit policies and practices to expand economic opportunity in the communities where they operate.⁴⁰

While driven more by the government than by advocacy from the tourism industry, South Africa has strongly emphasized a pro-poor approach to tourism. The government's *Responsible Tourism Guidelines* encourage companies to give communities stakes in their projects, and the Broad-based Black Economic Empowerment Scorecard assesses companies on a range of actions aimed at racial equity, including support for enterprise development and community development. The South African National Parks department requires those bidding for concessions within national parks to submit not only business plans but also empowerment plans explaining how their projects will provide business opportunities for emerging entrepreneurs and historically disadvantaged people. Some valuable concessions have been granted to companies that provide equity stakes to communities as a result of this framework. Although the specific history and conditions are unique to South Africa, such frameworks can be adapted for expanding economic opportunity in other countries.⁴¹

4.4.4 Mobilizing Multi-Stakeholder Public Policy Alliances

Efforts to shape and improve tourism environments through better policy are often most successful when many different stakeholders work together as advocates for change. The credibility of multi-stakeholder efforts is greatly augmented when major hotels and tour operators participate and provide leadership. At the same time, such alliances can help community leaders gain more active and legitimate voices in public policy processes. In many situations, community leaders may lack the confidence or understanding to interact with policy-makers, and may not even be able to get a “seat at the table” without external support.⁴² By including and supporting local community leaders, the tourism industry can help them develop their leadership skills, while supporting more participatory decision-making processes that – over time – create more sustainable tourism destinations where all the key players feel they have stakes in the industry's success.