



## TOURISM BUSINESS AND THE LOCAL ECONOMY: INCREASING IMPACT THROUGH A LINKAGES APPROACH

### A linkage approach

'Local linkages' is shorthand for a variety of ways in which well-established businesses (corporates and medium-sized businesses) can build economic links with micro-entrepreneurs, small enterprise, and residents in their local economy. Strengthening linkages is a way to create 'win-win' situations through harnessing the power of private business for the benefit of local development.

Strengthening local linkages depends on how a company does business, and is not just about donations to schools and clinics. A key principle is to harness the 'core competencies' of business, by finding synergies between commercial goals and ways to generate local benefits.

There is great debate over the extent of linkages in the tourist sector. Tourism is praised as a pro-poor growth sector that offers opportunities to small, medium and micro enterprises (SMMEs), while also condemned for leakages that leave most of the tourist dollars in the hands of firms far away from the destination. Irrespective of the initial leakage-linkage balance, which varies enormously from one economy and one culture to another, this Briefing Paper looks at how tourism linkages can be strengthened for greater local impact. The focus is on linkages at the level of the firm, between a company and the local economy, rather than on inter-sectoral linkages between tourism and, for example, agriculture and manufacturing.

Corporate-SMME linkages have been promoted for some years among multi-national corporations in the mining and extractive sector. Mining and oil companies have needed to demonstrate to their shareholders, host government and local communities that their positive economic impacts can ameliorate the negative impacts for which they are better known, and thus reduce reputational risk. 'Linkages' have most commonly referred to increasing local content (meaning national content) in procurement by the extractive industry or their lead contractors in construction and engineering (Warner 2005). In tourism, procurement is just one type of possible linkage.

### Why linkages are so important

Private business, large and small, has a critical role to play in poverty reduction. Optimising opportunities to stimulating local economies depends not only on how much business is transacted, but how it is done. The economic boost that can be provided by a company investing in a poor locality should not be underestimated. Beyond the cash value of new contracts for upstream or downstream SMMEs, there are dynamic effects resulting from contracts, business advice, new ideas and economies of scale, especially in remote areas with few other modern businesses.

If a linkages approach is not explicitly adopted, it is too easy for a mine, factory or hotel to purchase only the essentials locally, and otherwise depend on already-familiar distant suppliers, while local entrepreneurs remain unaware of how to exploit the market and expertise that arrives on their doorstep. A major opportunity for local economic development is missed.

### Why a linkages approach is needed – but often missing – in tourism

Any serious effort to increase visitor expenditure and poor people's participation in a poor destination cannot rely on governments, non-governmental organisation and communities alone. It depends on better integration of the tourism private sector into the local economy; on companies investing – and being encouraged to invest – more in local linkages.

Some linkages already exist. Hotels seek out the cost advantage of local labour and supplies such as food, and encourage guests to enjoy local activities to increase length of stay. For many hoteliers and tour operators it is common sense to support local artisans, guides or neighbourhood groups, if these directly enhance customer experience. But that said, many linkage opportunities are missed. Procurement is often from distant wholesale suppliers, to take advantage of bulk purchasing discounts, reliability of supply or to cater for international tourists' tastes. Even where local farmers produce tourist fare, the market connections between supplier and hotelier may be too weak for a viable linkage, unless a facilitator steps in to support local transactions. Excursions may be oriented towards operators' profit margins, rather than maximising local diversification opportunities. Thus, while local linkages exist, the mindset of optimising them for mutual long-term gain often does not.

In South Africa, from where many of the findings presented here originate, apartheid led to a particularly extreme gulf between established tourism business (still overwhelmingly white) and local entrepreneurs. Thus creating linkages, a considerably challenge, means doing business differently. But missed potential is evident elsewhere too. Research in seven Caribbean all-inclusive resorts found just one (locally-owned Sandals Resort in Jamaica) which was actively supporting farmers' groups to produce to their needs. The difference it made was substantial – purchases of melons alone injected an extra US\$7,200 per month into the local economy and was keeping 70 local farming families well above the poverty line – indicating how much potential is being missed where hotel-farmer communication is lacking (Lengefeld and Stewart 2004). In some more developed economies such as Dominican Republic and Tunisia, the vast majority of hotel food is supplied locally, but the chance to lure tourists from their all-inclusive packages into the local economy is missed: tourists could pass within 8km of the 2,000 year old ruins of Dougga (northern Tunisia) before seeing it signposted, and could pass through Santo Domingo (capital of Dominican Republic) without knowing that they were in the 'first' city in the Western Hemisphere, with the first hospital, cathedral and sugar mills around. Lacking information, the tourists and their wallets stay in the resort.

Why is a linkages approach so often missing in tourism? Local linkages overlap with popular tourism terms – sustainable tourism, responsible tourism, eco-tourism, corporate social responsibility (CSR), corporate social investment. But far from preventing neglect, their inclusion may have exacerbated it.

Firstly, responsible, sustainable and eco-tourism have

historically combined environmental and social concerns, but with the post-Brundtland environmental agenda initially leading the way. For hotels, implementing environmental efficiency – such as saving water and electricity – is technical (therefore relatively straightforward) and cost-effective. By comparison, engaging with local people is messy and unpredictable, rarely leading to short-term cost savings. Thus environmental action has taken precedence.

Secondly, local impact issues are generally divorced from core business and addressed by hotels and tour operators making philanthropic donations to schools and clinics, often as part of the Corporate Social Responsibility agenda.

It is not surprising that donations are popular in tourism: they directly address a visible need of people in the immediate vicinity; they are relatively easy to administer; tourists like to know of, or visit, the projects supported and often like to contribute their own funds or time too. However, company donations divorced from business operations do not exploit the assets of tourism: the sector (hotels operating on high gearing and operators operating on low margins) is not rich with cash, but it does have enormous purchasing power (its supply chain), business expertise (e.g. in product development, marketing), capital assets (equity or physical assets) and influence over a massive consumer market (the expectation, actions and expenditure of tourists). Investing in local linkages for local benefit can harness these strengths.

An example of the tendency to equate local benefit with philanthropy not core business practice comes from the World Travel and Tourism Council (2002) flagship report on leadership in CSR in travel and tourism. The report lists 17 examples of CSR actions by its members, of which only three are clearly adapting business practice rather than supporting local social projects. Of course, there are other tourism initiatives and publications that embrace or call for adapted business practice, but the point remains that there is a debate and a shift to be pursued.

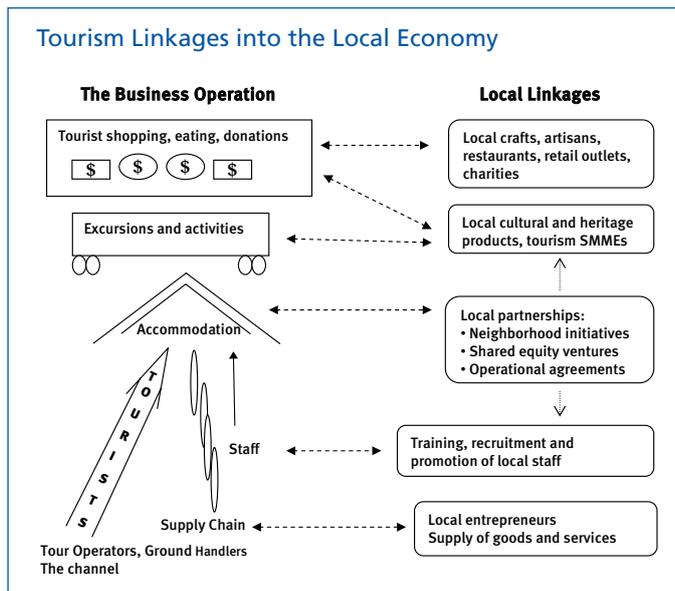
External pressure on tourism companies to invest in local linkages has been low, at least compared to pressure on multinationals in extractive sectors. Developing country governments push hard for local content in allocating oil extraction or mining licences, while stock exchanges and ethical funds monitor performance and risk exposure of multinationals. But in tourism, only the largest travel companies are listed. Pressure from tourists and ethical consumers on socio-economic issues has been low – though is now increasing. Relations between hoteliers and their tour operator suppliers are more focused on health and safety regulations (such as deriving from the EU Package Travel Directive) than clients' ethical concerns.

On the positive side, there are commercial incentives for tourism companies to invest in stronger local linkages. Tourists may be uncomfortable travelling to luxurious enclaves cocooned from a poor host society. Local poverty or hostility can directly undermine the tourism product – the landscape, nature, culture, and the sense of welcome. Conversely, stimulating local cultural groups or neighbourhood upgrading, can boost customer satisfaction. Thus there are sector-specific reasons for companies to invest in linkages, as well as the more usual international pressures to reduce reputational risk and reassure investors.

### Different types of local linkages in tourism

Too often it is assumed that linkages are just about increasing local procurement, or just about supporting community tourism

projects. In fact, step one of an effective approach to local linkages is for companies to consider the full range of options, and compare these to their own strategic position and assets. The figure below outlines core components of tourism business operation, and types of local linkage that are possible.



A hotel may support any of these five types of linkages: adapting its local procurement and recruiting, participating in a neighbourhood partnership or a formal shared equity venture, supporting local excursions run by locals and used by clients, or finding ways to encourage their guests to spend locally, such as by providing new information in rooms. For tour operators and ground handlers, there is some potential to utilise local suppliers (e.g. stationery) but the main opportunities lie in supporting locally-run excursions and exploiting the multitude of ways in which tourists might spend time and money in the local economy.

### 1. Boosting procurement from local enterprise

Procurement is often a missed opportunity to engage with the local economy. Shifting to small local suppliers can entail initial disruption and administration at first, but it can result in more loyal suppliers, more distinctive or cheaper products, and make a huge difference to local enterprise. Umngazi River Bungalows on South Africa's Wild Coast sources all fruit and vegetables locally and contracts services from over 80 suppliers in one of the poorest provinces. High staff morale drives customer satisfaction and record-breaking occupancy levels (over 95%).

There are many practical ways for hotels to help local suppliers to enter the supply chain: advertise procurement needs through new local networks (via local staff, church groups, small business networks); break contracts into smaller chunks that are manageable for small businesses with less working capital and different tools; change payment terms (pay cash on delivery or within 15 days); provide advice on product requirements, standards and safety issues; help suppliers acquire the right seeds or tools. Supply side investment in local capacity is inevitably needed: though more the domain of government, the prospect of a regular hotel contract can catalyse the necessary assistance.

### 2. Increasing recruitment, training and progression of local staff

Wages earned by local staff usually represent the largest single cash flow from tourism into the local economy. Employment of local staff is usually cheaper for the company than bringing in

#### Box 1: Mentoring makes procurement linkages work

Spier hotel, in the Cape winelands, has revised its procurement to initiate supplies from small black and local businesses. A key element has been mentoring: providing advice on anything from quality standards, invoicing, dealing with logistical problems and stock control. Crucially, mentoring has been combined with legal Service Delivery Agreements, to ensure the relationship is commercial and sustainable. While a facilitator is the initial catalyst for new supply relationships, responsibility then passes to operational staff in Procurement or Food and Beverage departments, to ensure the links are mainstreamed.

outsiders, which is why tourism has an inherent pro-poor impact. While tourism jobs are often dismissed as menial and seasonal, the significance of this cash flow in poor economies should not be under-estimated. Further increasing the local benefits from employment in tourism can take one of several forms:

- Adapting recruitment and induction to open up more jobs to local residents; adding on labour-intensive services, such as guiding or babysitting, which have a high job creation potential.
- Enhancing conditions of employment for unskilled and semi-skilled staff: wage rates, contract security, sickness and pension cover, hours and leave, bonuses, health and safety at work. This should include a policy for HIV/Aids that includes staff training, counselling, and action to counter sexual intimidation or harassment by guests.
- Enhancing training, promotion and career progression for staff who start in unskilled or semi-skilled jobs, enabling them to move up the management chain.

### 3. Partnerships with neighbours

There are many different types of local partnerships. No definition fits all economic, cultural and political situations, but broadly a hotel or tour operator can enter:

- A neighbourhood partnership with a range of stakeholders in the destination to upgrade products, services and facilities. An example in The Gambia involved hotels, juice-sellers, beach vendors, craft sellers, taxis, local authorities, a local NGO, and resulted in improved sales opportunities for locals and improved services for tourists (Goodwin and Bah 2003).
- A legal equity-based joint venture partnership, such as for a lodge, hotel or café, in which residents or a Community Trust hold equity. This has emerged in East and Southern African countries with communal land tenure, and is particularly thriving in South Africa as tourism land is restituted to communities who were relocated under apartheid.
- A range of other informal arrangements which are less comprehensive, but nonetheless go beyond simply a one-way donation, or a conventional commercial contract. They may cover use of land, natural resources, and infrastructure, community or SMME training, or consultative planning.

### 4. Supporting local cultural and heritage products and excursions

Those with local and historical knowledge have valuable skills, but often lack commercial information to know how to tailor their product, and access to tourists and market channels. There is a vast amount that established tourism businesses can do to help local cultural products and tours to thrive, such as developing excursions or theme nights in partnership with local residents, training local guides, passing marketing information to guests, and integrating local crafts into hotel furnishings. They can advise cultural entrepreneurs how to meet tourist requirements (for safety, scheduling, accessibility, translation, interpretation) without losing the authentic feel.

### 5. Encouraging tourist expenditure in the local economy

Shopping is a key element of most holidays and can multiply benefits for the local economy. Tourists' donations to local projects are growing in importance as a newer source of cash flow from tourism. What tourists spend and where is strongly influenced by hotels and tour operators. These companies directly influence guests through the information and excursions they provide and the places they choose to stop at. And they can indirectly boost spending by giving local SMMEs advice on what to produce, how to sell, assisting with marketing, and even providing a sales site at or inside their front door.

#### Box 2: Three core principles for companies investing in local linkages

- Innovate. Be prepared to do business differently.
- Protect the core business. Find linkages that make long-term business sense.
- Work inside and out. Support local SMMEs but manage change inside the company too.

The 'How To...?' series of tips and tools on procurement, products and partnerships provides detailed South African implementation guidance for tourism companies.

[www.odi.org.uk/rpeg/research/pro-poor\\_tourism/howto.html](http://www.odi.org.uk/rpeg/research/pro-poor_tourism/howto.html)

### Costs and benefits of a linkages approach

For companies, long-term commercial gains from stronger local linkages can be considerable (see Box 3, p.4). The most important benefit is customer satisfaction.

In this, the tourism sector differs from, for example extractives, where social licence or minimising risk are more likely to dominate. However, the challenge of implementation in the short to medium term can also be high. The main costs are in terms of management attention and staff time. Making linkages work requires a champion or facilitator to see it through. S/he needs to be able to communicate with staff and partners, and adapt course when problems arise. Initially there may be some risks from trying new products or services, and local partners may need some finance. Implementation costs may be relatively higher for a hotel than, for example, a mine because of the smaller company size. The stretch on management staff can be a problem that leads linkages to be delayed until other priorities are handled.

Thus the question is whether companies are willing to invest sufficiently in the immediate costs in order to realise the long term gains to the local economy and their business. This depends on (a) them finding linkages that have sufficient synergy with their strategic goals for management to embrace them; (b) there being sufficient capacity or capacity development by others among suppliers and local partners for linkages to be feasible (c) incentives, regulations or facilitation that encourage linkage approaches and reduce the costs of implementation.

Benefits to the local economy are also diverse. Hotels, lodges and resorts already generate a substantial cash flow into the local economy, mainly via the local wage bill. The question is, what added value does a linkage approach make? Data is scarce.

In South Africa, five mainstream companies piloted pro-poor approaches from 2002 to 2005 (Ashley 2005). The benefits gained after two to three years were small relative to existing local benefit from tourism, but were disproportionately significant for their potential to increase and multiply. For example at Spier hotel, new local procurement created new contracts worth £50,000 in year one. But if the target of shifting 10% of all procurement is achieved, gross additional cash flow will

be R7.5 million (£0.7 mn) into small and micro enterprises in the local economy. Simply in cash flow terms this would far outweigh Spier's philanthropic spend on a wide array of initiatives, and would be a cash injection equivalent to a 50% increase in the local wage bill (the latter is a net amount thus not strictly comparable, but aside from liquid petroleum gas, the large part of gross contract income is for labour-intensive services, thus also accrues to poor workers and owner-operators). This benefit comparison does not take into account additional contracts and market positioning that the SMMEs gain due to their Spier relationship.

Non-cash benefits are important. New contractors and local tourism service providers gain information, ideas, and skills from tourism companies, access to new expertise or markets, and enhanced reputation and hence marketability by virtue of their supply contract.

### Box 3: Benefits to hotels of local linkages

Interviews with around 20 tourism managers in South Africa who are implementing a variety of local linkages identify the following business benefits.

- Improved customer satisfaction emerged as the top-ranked business benefit. Customers reap the benefits in many ways – through a more distinctive product or diverse choice of activities, by learning about the linkage in the bar and over dinner, by gaining chances to talk to local people, or via improved staff service.
- Enhancement of brand, because the company becomes known for its involvement with the local community.
- Greater local support translates into local 'social licence to operate' and reduced crime.
- Enhanced staff morale which in turn means improved service, staff retention and customer satisfaction.
- Diversification of product derives from visits to local artists, local producers, trips with local guides, or use of local products in the hotel.
- Marketing advantage from word-of-mouth marketing (interaction with local people provides the stories to tell) or industry awards that recognise responsible practice.
- Preferential recognition from Government in procurement or concession allocation, which derives from the South African Black Economic Empowerment agenda.
- Access to responsible financing from lenders, such as International Finance Corporation that evaluate corporate citizenship
- Cost saving in those cases where local suppliers are cheaper.
- Improved corporate governance from the process of rethinking of strategy, procedures and staff participation.

From Ashley C (2005). Facilitating pro-poor tourism with the private sector: Lessons learnt from 'Pro-Poor Tourism Pilots in Southern Africa.' ODI Working Paper 257

## Policy implications

Linkages between tourism companies and developing local economies have unexploited potential. The limited evidence of the costs and benefits of promoting linkages suggests that development benefits are small at first but incremental and dynamic. Thus the real prize is if they can be mainstreamed across the tourism industry.

Within tourism policy, there should be more attention on how to promote linkages in tourism, rather than on either simply increasing tourism arrivals, or supporting community tourism projects that maintain the isolation of poor entrepreneurs from the mainstream.

The CSR and sustainable tourism agendas need to be pushed further, with the expectation that companies look beyond philanthropy and environmentalism, to focus on adapting how they do their business and how their 'business DNA' can be utilised by local entrepreneurs.

Linkage facilitation approaches developed in other sectors need to be applied in tourism, and adapted to the smaller firm size (and hence higher relative costs for each company), promoted according to the different range of business benefits (highlighting the opportunities to boost customer satisfaction and social license) and providing support for implementing a wide range of potential linkages (not just supply chain reform but supporting tourism service providers and increasing customer spend).

The reality that only a minority of companies will adopt a linkage approach unless there are incentives or facilitation that enhance the gains or reduce the costs. Thus while implementation is by the private sector, much of the catalyst is needed from governments with assistance from allies in NGOs:

- Incentives for greater local linkages can be incorporated into procedures for allocating new concessions (including linkage plans and impact estimates in scoring bids) and marketing policy (accrediting good performers);
- The costs to companies of implementing a linkage approach can be reduced by providing local facilitators with convening power and time to do legwork with potential local suppliers;
- Convening destination-wide initiatives can create economies of scale and help remove fears of any short term competitive disadvantage;
- The feasibility of linkages can be increased by investing in supply side capacity of local enterprises and potential partners.

## References

Guidance for companies on how to implement linkages has been written up in South Africa and the Caribbean:

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