



## **FROM PHILANTHROPY TO A DIFFERENT WAY OF DOING BUSINESS: STRATEGIES AND CHALLENGES IN INTEGRATING PRO-POOR APPROACHES INTO TOURISM BUSINESS.**

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### **1 INTRODUCTION**

This paper explores some of the ways to optimise the impact of the tourism sector for local development and poverty reduction. It is not an overview of all aspects of 'pro-poor tourism' (PPT), but focuses on strategies that tourism companies can adopt. It draws on reflections from practical engagement with companies in Southern Africa, supplemented by secondary research. It has three main aims: firstly, to illustrate that there is much that 'mainstream' commercial tourism can do to embrace pro-poor approaches; secondly, to go beyond generalisations about what companies should do to look at some of the nitty gritty of how they can implement changed practice; thirdly, to put forward the argument that the tourism sector needs to go much further in shifting from philanthropic approaches to community benefit to pro-poor approaches that entail *doing business differently*.

The paper first puts pro-poor tourism in the context of other concepts relating to growth and tourism and corporate behaviour. It then outlines a distinction between philanthropic donations and adapting business practice to be pro-poor. The remainder of the paper explores this distinction through empirical material from South African companies that are attempting to change business practice. Their initiatives, the business benefits, and the lessons for others are assessed.

Some would question the very starting point – engagement with companies to promote pro-poor change. Tourism companies, after all, are profit-seekers, whose business is commercial tourism, not development. But the assumption underpinning the work presented here is that that 'we' (as society) should seek to optimise the impact of tourism business. The argument goes thus:

- Poverty is widespread and direct approaches to poverty reduction are making insufficient progress – thus 'pro-poor growth' is also needed, i.e. growth which is inclusive of the poor.
- Tourism is a major economic sector worldwide, with particularly rapid relative growth in poor countries, thus is potentially very important for pro-poor growth.
- (Limited) evidence shows tourism can be developed in ways that *increase* net benefits for the poor. Furthermore, one approach to this is for companies to do business differently, and evidence indicates that doing business in pro-poor ways can make commercial sense. This should therefore be promoted.

Doing business differently will only ever involve change at the margin – tourism business remains a business. But marginal change in a massive sector can be significant for development.

The counter-argument needs to be recognised too. Conventional economics teaches that any policy instrument can only effectively be used for one objective. Trying to achieve two objectives with one tool is sub-optimal. Thus the ‘first best’ theoretical approach to achieving growth and poverty reduction may be for businesses to deliver growth, and for redistribution and public investment to deliver poverty reduction and equality. But what is first best in theory is not always deliverable in practice. Public expenditure alone cannot meet the enormous social goals. It seems a wasted opportunity – as well as unethical – to not try to harness business practice in ways that deliver more for local communities and local economies.

The paper also rests on assumptions that there is a ‘business case’ for change, which provides incentives for tourism companies to contribute more to society. Without a business case, promoting pro-poor change with commercial companies would be futile. As outlined below, experience indicates that there is not one single ‘business case’ but several reasons why businesses may gain from pro-poor behaviour.

## **2 BACKGROUND: PRO-POOR TOURISM, OTHER ‘TOURISMS’, AND CSR**

Pro-Poor tourism is an approach to tourism that increases net benefits to the poor. PPT means doing business differently, whether the business is a large beach resort or a luxury wilderness lodge. It is *not* just about community tourism and small, medium and micro enterprises (SMMEs), though these are a useful part of PPT. Nor is it just about tourism in poor areas, nor a niche product which is sold as ‘interaction with local people’, though again they contribute to PPT.

Misunderstandings over what PPT means go a long way to explaining the need for this paper. The very common tendency to categorise it as a specific and minor product (such as a community tour), or just a donation to the community, indicate a resistance to thinking in terms of core business operations and how they can be adapted. Hence the need to emphasise what it means to adapt business practice in pro-poor ways.

The findings presented in this paper draw on an action-research programme known as ‘PPT Pilots: piloting PPT with the private sector in Southern Africa’. PPT Pilots provides facilitation to companies to implement pro-poor approaches at five pilot sites: Sun City (the largest resort in South Africa, owned by Sun International), the Sandton Complex of Southern Sun (which is the largest hotel group in Southern Africa), Rocktail Bay Lodge (one of the 44 luxury lodges owned by Wilderness Safaris in Southern Africa), Spier Village (a hotel on a wine estate in the Cape Winelands), and Ker and Downey Safaris Tanzania (the largest photographic and hunting safari company in Tanzania). Through engagement with these Pilot Partners, the programme aims to develop lessons and good practice on pro-poor approaches, for wider dissemination. The three year project is funded by the Business Linkages Challenge Fund of the Department for International Development, and is nearing its completion, in May 2005.

PPT has close links with several wider debates, which are of direct relevance to the theme of this paper on ‘doing business differently’. Firstly, PPT is closely related to the wider development debates about *pro-poor growth*.<sup>1</sup> Pro-poor growth is about encouraging patterns of growth which benefit the poor, and PPT seeks to apply this in the tourism sector.

PPT is one core – and often under-represented – element of responsible tourism and sustainable tourism. One reason that *pro-poor* tourism was initiated was that the ‘people’ elements often fell

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<sup>1</sup> See, for example, Ravallion 2004 for further background on pro-poor growth.

to the periphery in responsible and sustainable tourism discussions, particularly within business. PPT is described as an ‘ethical cousin’ (Seif, 2004) of Fair Trade Tourism. In substance, they share a similar focus on benefits to local people. In application, PPT has been developed as an approach for tourism implementers to adopt, while FTT is being applied as a standard for certification and thus as a guarantee for consumers.

Of great importance in South Africa, is Black Economic Empowerment (BEE). BEE is a key part of post-apartheid restructuring of the South African economy to address the inequity and exclusion created by apartheid. BEE aims to ‘*promote the achievement of the constitutional right to equality, increase broad-based and effective participation of black people<sup>2</sup> in the economy and promote a higher growth rate, increased employment and more equitable income distribution; and establish a national policy on broad-based black economic empowerment so as to promote the economic unity of the nation, protect the common market, and promote equal opportunity and equal access to government services*’ (extract from the Broad-Based Black Economic Empowerment Bill; Republic of South Africa, 2003). PPT overlaps with BEE in part. PPT focuses on poverty not race, and thus more on inclusion of unskilled previously disadvantaged individuals (PDIs) as workers, neighbours, SMME suppliers, rather than, for example, as shareholders or executives.

Finally, PPT is part of the debate about Corporate Social Responsibility (CSR) and Corporate Citizenship. CSR is acutely relevant to the tourism industry because the nature of tourism means that security in the producing economy and corporate reputation are both important to the customer. The focus of PPT on changing business behaviour has parallels in CSR debates, where the emphasis has shifted from short-term ‘doing good’ to finding win-win situations in which companies can profit by doing good. Although there are a number of descriptions of various CSR approaches, Locke presents a useful typology of four categories: minimalist, philanthropic, encompassing and social activist (Locke, 2003: 2), as in Table 1. PPT approaches would ideally see companies shift from ‘philanthropic’ to ‘encompassing’ CSR approaches.

**Table 1: Four approaches to CSR**

<b>Minimalist</b>	<b>Philanthropic</b>	<b>Encompassing</b>	<b>Social Activist</b>
<ul style="list-style-type: none"> <li>- Basic Stakeholder Support.</li> <li>- Addressing aspects that are generally HR orientated</li> <li>- Tokenistic</li> </ul>	<ul style="list-style-type: none"> <li>- Project specific</li> <li>- Related to Specific issues relevant to the particular organisation</li> <li>- Donations and gifts</li> <li>- Seeks to change</li> </ul>	<ul style="list-style-type: none"> <li>- Looks beyond the immediate business stakeholder group to broader community</li> <li>- Embedded in company values and management style</li> <li>- Seeks to lead change</li> </ul>	<ul style="list-style-type: none"> <li>- Approach is the foundation of the business</li> <li>- Business is a catalyst for change</li> <li>- Seeks to effect change on others</li> </ul>

Source: Table adapted from text in Locke, 2003

### **3 A SPECTRUM OF CORPORATE ACTION: FROM DONATIONS TO ADAPTED BUSINESS PRACTICE**

There are different ways that companies can contribute to the wider economy and community, act in a socially responsible way, and be good ‘corporate citizens’. There are many ways of

<sup>2</sup> Black people is used in this context as a generic term and refers to any Previously Disadvantaged Individuals (PDIs) – South Africans that belong to Black, Coloured, Asian, or other non-White groups.

categorising the actions they can take but one obvious distinction is between ‘donations’ and ‘adapting business practice’.

**‘Donations’** refers to a philanthropic approach, whereby companies *contribute funds or other resources to good causes, usually from their pre-tax profit*. The causes they choose to support may often have some direct or indirect link with their business – it may be in the same neighbourhood, be of benefit to the families of staff or future staff, and for tourism companies it may be an initiative that relates to the tourism experience, such as environmental appreciation, language training, infrastructure enhancement. But in general, this approach is distinguished by the fact that:

- It is done quite separately from the operation of the business, usually involving staff with specific responsibilities to manage community investment. It can even, as in the case of Conservation Corporation Africa (CCA), be handed over to an entirely separate organisation.
- The relationship within which resources are handed over, is that of a donor (the company) and recipient (the community or organisation). Although there will be conditions attached and some degree of reciprocity and recognition expected, it is not a market transaction between a buyer and seller of goods or services.

This approach may also be distinguished by the fact that, in the short-term at least, it is done for the good of the cause, rather than to directly benefit the company’s bottom-line. However, this is not always clear cut. The projects supported may in the long-term have some bearing on the tourism business, or the reputation enhancement may bring medium-term benefits, such as marketing appeal. Thus it can be strategic rather than purely altruistic.

**‘Adapting business practice’** means changing one or more elements of normal business operations so that the business function is still fulfilled, but in a way that improves the social, economic, or environmental impact in some way. This approach may have strong philanthropic objectives, in that the major motivation for change may be external benefit. But the shift will also be expected to make sense commercially, and at the least not detract from the business in the short term while adding to it in the long term. It will be implemented by adapting the day to day actions of operational staff. Examples of normal business operations that might be adapted in tourism include sourcing of inputs, contracting out services, providing information to guests, creating packages of local excursions, or developing new leisure facilities. All these can be done in a way that only considers commercial returns, or in a way to simultaneously seeks to optimise societal benefit while still making business sense.

“In South Africa, critical issues posing sever threats to development such as HIV/Aids, land redistribution, government capacity to manage development processes, housing, access to credit and education underlies the reality that undertaking business in Southern Africa demands a new approach to social responsibility. *The traditional idea that a philanthropic business foundation, or even joint business approaches to development through large collective donations, will suffice as a development strategy, is rapidly becoming displaced.* Corporate Citizenship is about the integration of strategies into the core business in a way that compliments national and civil society development agendas, while adding value simultaneously to shareholders and stakeholders.”(African Institute of Corporate Citizenship (AICC)<sup>3</sup>, 2002)

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<sup>3</sup> The AICC was founded in 2000 and is an African NGO based in Johannesburg, South Africa with the purpose of promoting corporate citizenship on the African continent, by promoting responsible growth and competitiveness, and by changing the way companies do business in Africa.

The key difference is not in the degree of benefit to the company: there are plenty of arguments in CSR debates that philanthropy is often strategic, and the core commercial benefits are clear if indirect (Lantos, 2001; Lantos, 2002). Conversely, changing business practice is not necessarily of great commercial benefit. Therefore it is more useful to distinguish philanthropic donation and adapted business practice by the nature of the action and how it is done, rather than why – whether the action is integrated into business practice or is a stand-alone activity.

The distinction between donations and adapting business is, in practice, not always clear cut. An initiative may begin as a philanthropic contribution supported with funds from a company donation, but as it thrives develop commercial linkages with the business. The clearest example of this is where a company donates resources to emerging enterprises or training courses, which in the long term become part of their supply chain. E.g. the Delta Corporation in Zimbabwe has a revolving fund of more than \$1 million to provide seed capital to new enterprises. The company then outsources work to these SMEs (Deloitte, 2004).

Nevertheless, the distinction is an important one to highlight and probe, because it serves as the basis for the argument tendered here, that:

1. if CSR, CSI, CC, PPT, ST are to make a substantial impact in the long term to pro-poor growth and poverty reduction, then companies need to move beyond donations to adapted practice
2. but to date in the tourism sector, community projects have been the norm<sup>4</sup>. Adapting business practice involves a major change of approach, particularly in attitude and assumptions (particularly in South Africa, and probably in other ex-colonial contexts). And thus an incremental approach may run aground if the need for a shift in mindset is not explicitly addressed, and the challenges handled.

In the South African PPT programme, the Pilot partners were already making substantial philanthropic contributions. Through engagement with the PPT programme they have initiated or increased their efforts to adapt business practice to be pro-poor, and in some cases this has highlighted the differences between the two approaches, as explained further below. For example:

- Spier already supported a plethora of sustainability and community initiatives. With PPT support, it is now focusing on increasing its procurement from local SMME and PDI suppliers, within a wider context of putting its overall procurement on a more sustainable footing.
- Sun City had and continues to have a very large Corporate Social Investment Programme, supporting, for example, local aids hospices, schools, Pilanesberg Wildlife Trust and other community activities (PPT Pilots, 2003a). A very different, and currently much smaller scale, approach is being taken with PPT support, which is to support the establishment of two local enterprises which will supply Sun City – with welcome cards and recycled glasses – while exploring business options for guests to visit local heritage sites.
- Wilderness Safaris was distinctive in that it already had a business approach that involved community partnership (as a share of equity or revenue) in several of its Southern African lodges, including Rocktail Bay. During the PPT Partnership, WS has focused on

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<sup>4</sup> For example, the World Travel & Tourism Council (WTTC) lists various examples of Corporate Responsibility (WTTC, 2002), but of the socio-economic actions, the vast majority involve donations for community services rather than adapted business practice.

strengthening the existing partnership, replicating the approach as the destination expands, and developing new business links such as a community tour for guests.

### **3.1 Pros and cons of the two approaches**

While emphasising the need for adapting business practice, this paper does not intend to dismiss the value or advantages of the philanthropic approach. The pros and cons of both approaches need to be assessed, and their appropriateness will vary in different contexts.

Donations from pre tax profits can be on a considerable scale – for example, in 2003 the Sun International Group allocated ZAR 7,982,000 to corporate social investment (CSI) (Sun International, 2003). Spenceley (2001) compared the community project approach of Conservation Corporation Africa (CCA) at Ngala Lodge, and the shared community equity approach of Wilderness Safaris at Rocktail Bay. She found that both generated moderate impact in terms of funds to the community.<sup>5</sup>

There are several advantages to the tourism company of a donations approach: donations can be relatively easy to administer without interfering in day to day operations, highly visible, meet priority local needs, and can spawn further partnerships. The advantage to a local community benefiting from such investment is a large injection of funds, that probably could not be raised internally, that can be used (though not always are) for needs that meet the needs of a wide spread of the population, including those that have least chance of participating in the economic opportunities generated by tourism.

The advantages of the alternative approach, adapting business operations, lie in the potential scale of local impact. Given the volume of inputs and volume of tourists that companies are dealing with, a small change at the margin that brings in poor workers or entrepreneurs can have an enormous local economic impact – if and when it reaches such as scale. A second advantage is that as business linkages develop, there are likely to be further incremental and spin-off effects – as skills are acquired by staff or suppliers, they can be applied to other activities as well or to further expansion.

Table 2 summarises the advantages and disadvantages of the two approaches, some of which accrue specifically to the company or community. It suggests that adapting business practice offers greater long term potential impacts, but getting there is difficult. The evidence available to date from PPT Pilots sheds some light on what it means in practice, how it can be done and the short to medium term impact it can have. But cannot at this point provide conclusive comparative evidence to confirm the hypothesis that changing business practice is better in the long term given its greater potential scale, impact and dynamism. Evidence for this would need to be collected over a significantly longer time frame.

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<sup>5</sup> with average income per person per annum amounting to £1.18 at Ngala and £1.67 at Rocktail. I.e. these are broadly the same order of magnitude given that population differences have a substantial impact on such calculations.)

**Table 2: advantages and disadvantages of the two approaches**

	<b>Philanthropic donations</b>	<b>Adapting business practice</b>
<b>Potential Advantages</b>	<p><i>Development:</i></p> <p>Can meet priority needs (e.g. education) and span the community</p> <ul style="list-style-type: none"> <li>▪ Large cash value in a poor community</li> </ul> <p><i>Commercial:</i></p> <ul style="list-style-type: none"> <li>▪ Doesn't interfere with business operation</li> <li>▪ High PR value</li> <li>▪ Can be outsourced (e.g. CCA)</li> <li>▪ A foundation for more substantive partnerships</li> </ul>	<p><i>Development:</i></p> <ul style="list-style-type: none"> <li>▪ Long-term impact on community and company can be enormous. Multipliers &amp; spin-offs.</li> </ul> <p><i>Commercial:</i></p> <ul style="list-style-type: none"> <li>▪ Enhanced tourism product, complementary product</li> <li>▪ Development of brand</li> <li>▪ Cost-saving</li> <li>▪ Feeds into enhanced corporate governance</li> <li>▪ Greater recognition from others, and hence impact on social licence, market appeal, government relations, finance etc.</li> </ul>
<b>Disadvantages</b>	<p><i>Development:</i></p> <p>Projects that fail or are not sustained – unused computers/ classrooms</p> <ul style="list-style-type: none"> <li>▪ Creates dependency, embodies paternalism</li> <li>▪ Budget constraints on volume</li> <li>▪ Community development isn't a core competency of tourism business</li> </ul> <p><i>Commercial:</i></p> <ul style="list-style-type: none"> <li>▪ Uses up cash – a scarce resource for most tourism companies</li> </ul>	<p><i>Development:</i></p> <p>Impacts take time to show, and are unevenly distributed</p> <p><i>Commercial:</i></p> <ul style="list-style-type: none"> <li>▪ More binding on the company – less flexible if need to restructure</li> <li>▪ It's difficult..., requiring time, inputs, leadership, corporate change....</li> </ul>

#### **4 ADAPTING BUSINESS PRACTICE FOR PPT – PUTTING IT INTO PRACTICE.**

##### **4.1 Spier**

Spier Village is owned by Spier Holdings, and was purchased by the Enthoven family in 1993. It remains family-owned, and has always had strong values that would not be typical of public companies. For example Spier states that 'Spier's vision is to create a sustainable "micro-ecology" which enhances our heritage and culture, generates wealth for all stakeholders, helps meet social and economic needs, and provides the infrastructure to encourage new community lifestyles compatible with our vision for the Winelands' (Spier 2001, pp5). Spier has long had ambitious goals in terms of local recruitment, community development, environmental integrity and broad sustainability objects. In the 1990s, Spier's support for sustainability initiatives and community investment increased, reaching approximately ZAR 10 million over five years. The vast array of activities ranged from support for local tennis, to waste recycling, to eco-village development (PPT Pilots, 2003b).

For the owners and top management, the triple bottom line matters – the business has to make environmental and social sense, as well as commercial sense. However, the ownership and accountability of the vision and values have been held by the ownership group, and until recently their implementation was driven in a top-down and purely philanthropic manner. Some managers were involved in CSR activities such as donating product (e.g. accommodation or dinners in restaurants) and employee development. But apart from this, operational staff on the ground have played a very small role in anything other than delivering the financial bottom line. The management team were managed and assessed on financial aspects, as no measurable assessment criteria existed for non-financial items.

This meant that, in effect, the vast range of activities on the social and environmental arena were conducted in isolation of the driving financial aspects and at no time were synergistic linkages or adaptations to normal business operations sought. The triple bottom line essentially meant three distinct silos all standing on their own foundations and with very little cross-over.

During mid 2003 to early 2004, Spier underwent a transformation period. Initially the focus was heavily on managing financial challenges. But as these stabilised, the new managerial team sought tools to assist in the transformation of the business on both the action and the philosophical levels. Spier sought out partnerships with organisations such as Pro-Poor Tourism and Fair Trade in Tourism SA. Various options were explored for Spier to link its vision for its own business development, with expansion of local enterprise opportunities. Initially, the idea of Spier acting as a ‘Gateway’ to local cultural and tourist services was developed, in the context of Spier developing its unique selling point (USP) as a leader in African art and a physical gateway to the winelands. Subsequently, the focus shifted to the application of sustainability principles to the existing business, including a specific focus on PPT.

The overarching management approach was reviewed and a “step change” is taking place where a focus on set measurable criteria is being adopted. PPT principles are now included in the indicators that will be used to evaluate and assess the performance of the management group. A change to the criteria by which all management staff are evaluated for incentives and performance appraisals was proposed and is currently being reviewed. It is envisaged that this will be taken down to all staff at a later stage.

The main focus for implementing change in business operations has been in procurement of goods and services. Both existing policy and practice of procurement were reviewed and fundamental changes made in how the business was conducted. All existing suppliers were surveyed via a questionnaire, to gain information on the existing degree of local, PDI, and sustainable sourcing. A staggered programme for sourcing supplies locally was put in place. As of the end of 2004, a new local laundry enterprise to service Spier is established and expanding, liquid petroleum gas (lpg) is being purchased from the local township, clearance of invasives and supply of fuelwood by a local operator is underway, and other local products are in the pipeline including organic produce, cards and crafts. This process has involved changes in the attitudes and approaches of the core staff. As new initiatives take off, with support of PPT Pilots, the early successes assist to facilitate further change.

Spier Leisure’s total procurement in 2002 was ZAR 44.2 million. Spier’s management are well aware that if they are able to shift 10% of that procurement to local SMME suppliers, the annual spend into the local economy of over R4 million would – simply in cash flow terms – far outweigh their philanthropic spend on a wide array of initiatives.

Although some of these initiatives have been set up with capital assistance from Spier, such as the laundry, this has already paid for itself in terms of savings that have been achieved due to the

manner in which the project was structured. To date, all the PPT pilot projects are costing no more than any other product and the benefits of the project items are clear. Although Spier invested heavily in a philanthropic manner in the past, the new approach has allowed it to establish a set of values within the staff and achieve greater buy-in from the communities, staff and local authorities.

#### **4.2 Sun City – procurement from two new small enterprises**

When Sun City opened in 1979, it initiated support for a few community-based projects, in a purely philanthropic manner. These have continued and expanded over time. Sun City has a CSR division which sits within the Human Resource division and manages a budget of 1.5% of pre-tax profits, which is used to address a variety of community, cultural and environmental issues. However, the business and managers at Sun City have remained entirely focussed on the financial aspect of the business. Black Economic Empowerment issues have been addressed through changes in Human Resources management and business ownership. But the business is run entirely according to cost-efficiency while the philanthropic support is operated separately.

Under the PPT Pilot, Sun City has begun to support the establishment of two micro enterprises which could act as suppliers to Sun City, and to liaise with operational staff on how they can adapt their procurement and practice to support the SMMEs. One enterprise is producing glasses from used bottles, with facilities for engraving designs and personalising the glasses. The other project intends to produce greetings cards for Sun City hotel managers to use as ‘welcome cards’ for room guests.

Sun City has assisted with local business development in the past, including the existing small-scale bottle recycling plant, and a hydroponics initiative on the same site. However, previously there has not necessarily been a business link between Sun City and the enterprises that benefit from their support. The two new enterprises have been chosen specifically because of their potential to supply Sun City: in the case of the cards, they will (partially) replace the existing supply of cards from Pretoria. The re-cycled glasses will initially be an additional product, that will be added to the ‘room drop’ for VIP guests (along with champagne, fruit etc), but plans are underway to develop a larger supply of glasses to Sun City outlets, and to enable Sun City guests to visit the production centre and order their own personalised products. Unlike the previous SMME-support initiatives, these arrangements involve links between the CSR department and operational staff, on how the purchases are to be made, delivered, used, and developed. Furthermore, there is discussion of developing a local ‘brand’ that can be applied to a range of goods and services that come from the local economy, and would act as marketing support for new products in future.

The scale of these enterprises is tiny compared to Sun City’s CSR budget, and would only ever account for a mere fragment of the procurement budget. If the card-making enterprise is able to supply Sun City’s need for approximately 1000 cards per month, its gross revenue would be around R168,000 per year. Significant for an enterprise of four or so staff, but still dwarfed by a CSR budget in the millions. However, the greatest development potential lies in providing a demonstration of a different approach which can then be adopted across a substantial share of Sun City’s procurement.

### **4.3 Wilderness Safaris – local staffing and local tourism product**

At Rocktail Bay, the local Mqobela community is an equity holder in both the lodge owning company and the lodge operating company. Thus the business model already combines business operations with community benefit. Community benefits from business operations fall broadly into three types:

- revenue that goes into a bank account of the community trust due to its equity in the lodge owning company;
- wages of local staff, with approximately 30 local staff employed, due to a strong preference for recruiting local staff;
- earnings of other local enterprises, such as the taxi driver, and security patrols.

During the PPT Pilot with Rocktail Bay, efforts have been underway to strengthen all three of these business linkages. In terms of the equity share, the PPT facilitator has been working with the Mqobela community on organisational development, to help the community make more effective use of its income, while simultaneously assisting Wilderness to set up a new partnership with the neighbouring Mpukane community, in whose area a second site is being developed. The principle of local staff recruitment is also being extended across to the new site, where in 2004 70 local people were interviewed for approximately 30 forthcoming jobs, and training is planned to enable local staff without experience to take up the positions.

The main SMME development lies in a new product developed for guests at Rocktail Bay which is a community tour. Guests visit a Sangoma (traditional healer) and a storyteller, watch the dance troupe perform at the local primary school, and eat traditional food at a nearby house. The tour price is shared between the Sangoma, storyteller and woman-chef, while the lodge is supporting the school and the dance troupe in other ways. In the past, guests were driven through community areas on their way, for example, to hippo pools, but without guests having the opportunity to visit local people, nor local people having the opportunity to earn income. Although the community tour only got underway in August 2004, initial records and feedback from guests indicate that it has made a distinctive addition to the product available. What is notable across these initiatives is a mindset, at both lodge and headquarters level, that approaches new business opportunities with an eye to simultaneously expanding local economic opportunities.

### **4.4 Examples from elsewhere**

There are several other examples, in South Africa and internationally, of businesses adopting pro-poor business practice. In South Africa, many of the most long-standing and celebrated examples are winners of the Imvelo Responsible Tourism Awards hosted by the hotel association, FEDHASA and/or have gained their accreditation as Fair Trade in Tourism establishments.<sup>6</sup> Just one example, demonstrating the potential to stimulate local tourism providers while enhancing the product available for guests is Shiluvu Lodge in the Limpopo Province where management have actively worked towards establishing tourism routes to showcase the wealth of artistic talent in the region. This development has been done in a manner that seeks to stimulate the local economy and open up opportunities that would not have been accessible in the more traditional tourism business approach. At the same time it provides a unique product to the tourists,

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<sup>6</sup> See <http://www.fedhasa.co.za/> and <http://www.fairtourismsa.org.za/>

benefiting both the clients and the lodge. Shiluvuri was also one of the first sites to gain Fair Trade in Tourism accreditation.<sup>7</sup>

International examples also demonstrate how the impact of ‘doing business differently’ can be both incremental and ultimately substantial. A small-scale example comes from Mozambique, where Bella Vista Lodge is a budget safari venture on Ibo Island (in the Quirimbas Archipelago National Park in the Cabo Delgado province of Northern Mozambique). Since the lodge was purchased by Ibo Island Safaris in 1999, a business approach has been adopted that has resulted in a cumulative and substantial impact on the island’s economy: locally available products and services such as fish, shellfish, coffee from the local plantation, bread, marineros, guides and cultural advisers were all brought into the supply chain. In addition to this, the rebuilding of the lodge and wells was all done by locals who, until that time had very little work, if any. In order to provide sufficient food for the lodge and staff, the lodge developed a garden in the old Mashumba on the island. This produces some food but has also stimulated other farmers to produce food for sale. What makes this small example so noteworthy is that in the past, and even at present in other lodges, tourism activities had all been done by importing skills and supplies from Pemba or Maputo or even neighbouring states, and with very little use of local products, apart from fish. The result of the approach is that an 8 room budget lodge has a substantial impact on the economy, while the business returns for the company include exceptional support from the Governor of the region, NGOs and international agencies for expansion of the lodge and development on a second island (unpublished fieldwork data Haysom, 2004).

A larger scale example of how mass tourism can be done differently comes from the Caribbean. Research by GTZ assessed 7 all-inclusive resorts, of which one, Sandals Jamaica, had an active policy to source inputs locally. As a result of this, and in contrast to the other lodges, much fresh produce is purchased from local farmers rather than imported from Florida. For the purchase of cantaloupe and watermelons alone, US\$7200 per month is put into the local economy, and 70 farming families get an income which is above the poverty line. If all the all-inclusive resorts in the Caribbean were able to adopt such practice, the impact for farmers and other suppliers would be substantial (GTZ, 2004)

These and other international examples illustrate two important points. One is that where a different business approach has been adopted over many years, the cumulative affect is now evidently a substantial impact on the local economy. Secondly, there are practical examples of companies operating successfully through local business linkages but currently they still stand out as being different from the norm.

## 5 THE BUSINESS CASES FOR CHANGE

Experience of the PPT Pilots and others suggests that there isn’t a single ‘business case’ for a PPT approach to business, but several business cases, the relevance of which will vary by setting. Eight benefits to business have been noted by partners in South Africa:

1. **‘Social licence to operate.’** It is not just the legal or official licences that matter, but acceptance of a company’s legitimacy amongst local institutions that matters, particularly in post-apartheid South Africa. Spier’s social licence can be seen in the way it has been able to enter partnership with local organisations, is used as a case study by government, has access to decision-makers to be able to present Spier’s view

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<sup>7</sup> See: <http://www.shiluvuri.com/>.

of local developments, and new initiatives proposed by Spier have found an audience, and often subsequent acceptance. For example, Spier successfully proposed installation of an environmentally-oriented Biolytix waste removal system, and it could be argued that such a proposal would not have been discussed were it not for Spier's recognised record of local support.

2. **Enhanced corporate governance and staff morale.** Companies that have gone through the process of applying for Fair Trade in Tourism accreditation report that one of the main benefits lies in the enhanced corporate governance which the process catalyses (Seif 2004). Addressing fair trade issues requires internal processes and changes that have wider benefit. Staff morale can also be enhanced through pro poor action. Local staff, in particular, are acutely aware of how the tourism operation interacts with the locality, and are the first to see if words exceed actions. If staff see that they are part of a business with a wider purpose, and particularly if they are treated as stakeholders in delivering that purpose, it can have a direct impact on staff motivation, which goes beyond traditional human resource management.
3. **Customer satisfaction and market appeal.** While few in the tourism trade expect tourists to make their choice solely or primarily on ethical criteria, a number of establishments are boosting their market appeal and attracting ethical tourists due to the additional value added of their responsible behaviour. Shiluvu Lodge (see Section 4.3 above) is one such example, where its approach to building the business with local enterprises has gained it accreditation of the Fair Trade trademark and Imevelo Awards. The lodge is included in the Limpopo Collection and readily sold by tour operators side by side with 5 star lodges. It is sold by a number of prestigious specialist tour operators that would ordinarily select lodges with greater prestige, because they know that the distinctive experience on offer will satisfy their clients.
4. **Government procurement, preferred partner, recognition.** The Government normally procures goods and services from BEE companies, which usually means those with black ownership shares. In the tourism sector, a number of smaller family owned operations are reluctant to 'give away' parts of their business, or cannot do so due to debt structuring. Active investment in PPT and RT is an alternative approach, which can be seen as a more dynamic approach to empowerment, and enables properties to continue to gain government business.
5. **Enhancement of brand and USP.** The clear example of this is the properties that have embedded pro poor principles into the core business and as a result have been able to gain accreditation in initiatives such as Fair Trade in Tourism. This allows them an entirely different level and type of exposure. Other actions by operators enhance brand in more specific ways. For example, Arabella Sheraton on the Cape Town foreshore, local craft artists and a rural women's project provided a large number of items for the property such as pillows, murals, art pieces and operating equipment. Although this was not done to define the brand it has certainly become one of the defining aspects of the property.
6. **Access to responsible financing.** Several financing organisations, both international and domestic, have provisions to support investments with strong social investment. The International Finance Corporation (commercial arm of the World Bank) is investing in two of the pilot partners, Wilderness and Spier. The Development Bank of SA (DBSA) has as its mandate, to contribute to the delivery of basic services and

promote economic growth through infrastructure funding, to build institutional, financial, technical and knowledge capacity for development. By adopting a broader pro poor orientated approach, a number of tourism business seeking assistance from the DBSA have found the bank more receptive to their development plans (pers comm. L. Sacco December 2004).

7. **Minimise risk** – of local opposition, global criticism. Tourism businesses have to recognise the potentially negative impacts of irresponsible approaches to their business. The issue is well captured by Patrick Shorten, managing director of Sabi Sabi, which has sought to actively involve communities in a variety of projects: “Our philosophy is driven by the belief that a wildlife sanctuary will only survive economic and social pressures by creating employment, earning foreign currency, paying tax and promoting sustainable tourism” (Groenewald 2004, pp 84).
8. **Keep regulation at bay** – at an industry level. Nationally there is some debate about the value of legislation in creating transformation. While the scale of the challenge requires compulsion at some levels, there is also recognition of the limitation of legislation (for example on skill development and employment equity): legislation must cater to the lowest common denominator, and once legislative targets are reached there is no incentive for further change. Furthermore, legislation hits the smallest companies hardest, as in the financial services sector where several small companies were eliminated when companies needed larger scale empowerment deals to meet their BEE scorecards (pers comm. D. Irvine September 2004). From the companies’ point of view, the issue is clear: invariably they would rather find their own way forward than have more legislation. Thus one motive for demonstrating that they can, through their own efforts, transform the local impact of tourism, is to demonstrate the value of alternative routes to legislation.

Although the incentives vary by operation, many of these are critical to tourism operations in current day SA.

## **6 WHAT ARE THE ISSUES AND CHALLENGES ALONG THE WAY?**

Doing business differently and developing local business linkages is not easy. The experience of the PPT Pilots demonstrates eight key challenges, and concomitant tips, for implementation.

1. A champion and driver of the process is essential, as is top management leadership. Pro-poor approaches will always be just one of many actions on a company’s agenda, and unless there is a champion they are likely to remain in ‘the future’. At Wilderness Safaris, Malcolm McCullough as CEO, who tracks and pushes ahead the community partnerships in Maputand, gives extra impetus to the actions of other staff. At Spier, the owner Adrian Enthoven provides commitment from the very top, while the Sustainability Director of Spier Holdings, Tanner Methvin, provides a champion at a senior management level to drive the process forward. At Sun City, the Corporate Affairs Director, Dan Ntsala, has championed the new PPT approaches alongside his existing community investment work, and there is no doubt that his enthusiasm for trying out the new approach was essential to translate interest into action.

2. Considerable amount of *time input* is needed, and therefore so is a staff member or facilitator who can do this. This person who does the legwork of implementing new procedures may well be a different person to the ‘champion’ or top management leader. Indeed at Sun City, the lack of time available for the CSR Director to do the numerous tasks involved in supporting new suppliers and his lack of implementation staff in his team has been a constraint. At Spier and Rocktail Bay, the process has benefited from geographic presence and more intensive facilitation from PPT Pilots, and as a result much has been achieved that company staff on their own would not have been able to achieve.
3. Beyond the champion, *wider buy-in* across staff and management is needed. While the champion can catalyse a process, and will probably need to bring others on board in a gradual process and via demonstration, a champion will have to engage other key operational staff to succeed in changing business practice. For example, chefs, the Buyer, or Guest Relations Officers, are essential to measures that change the supply chain or the complimentary products for guests. Unlike community donations, the PPT approach cannot be compartmentalised into one separate department.
4. *Learning by doing*. Management and staff are understandably wary of more discussions of nice ideas. A key tip is to get practical and get going, and adapt from there. Garnering support from others in the company and community is only likely once they can see practical results.
5. Performance indicators will need to change. Stimulating interest or support among staff is a first step, but full implementation may require changes in job functions and *Key Performance Indicators* for staff. This means moving away from assessing only financial performance. Careful assessment is needed to identify new indicators that reflect and measure the company’s commitment to a different business approach, and then all individuals that have an impact on any of the indicators are incentivised on their performance to these non-financial indicators.
6. Attitude change is inherent in the process. It is not just a matter of changing company practice but changing *attitude* to communities and local entrepreneurs, particularly where history has led to deeply entrenched paternalistic approaches to communities. International experience (Jeffery, 2004; Torres, 2004), shows that *attitudes* of chefs, buyers, and lodge managers, and ill-informed assumptions about lack of product quality or availability are often a key constraint to opening up the supply chain. Once linkages are being developed, it may be a challenge for the company to engage with new suppliers as business partners, and not in the traditional mode of a uni-directional relationship between benevolent donor and grateful recipient, in which the donor can expect to be able to control the process.
7. A *slow pace* must be accepted, and expectations managed – without dampening the enthusiasm and drive that is still needed. Change is likely to be incremental – one thing leads to another. But this also means not sticking rigidly to a plan and being opportunistic when new options emerge, so that one thing *can* lead to another. Wilderness Safaris’ regional manager for Maputaland, Patrick Boddam-Whetham, states that managing community expectations has been one of the greatest challenges of their partnership approach in the region (pers comm. Sept 2004).
8. Finding the right *partners in the community* is key. It is also often a difficult first step. In the Southern Sun PPT Pilot, the plan was to set up a partnership between Southern Sun and the Alexandra Chamber of Commerce. A few meetings were held by PPT facilitators,

and further work done with partners between meetings. But it never reached the stage where a partnership between the two was developing independently and sustainably.

These lessons from current experience indicate that changing business practice is not the easy option. But it is possible, and initial evidence to date, though not sufficiently extensive or conclusive, shows that it can have substantial impact for local development as well as valuable business returns. However, to achieve a wider shift from donations to PPT business practice requires a change in mindset across a much greater spectrum of the industry, and probably outside incentives and facilitation to support the process.

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