Business incubation as a tool for transforming MSMEs in the Tanzanian tourism sector

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Abstract: The failure of the majority of start-ups in the Tanzanian tourism sector is mainly due to the inadequate business incubation services in the country. Through qualitative method, this study suggests a model for establishing tourism incubation centres in Tanzania with a pilot in Arusha, Dar es Salaam and Zanzibar. An initial three-year implementation needs to be considered and it will require strong collaboration and cooperation among different stakeholders, working together to support and grow tourism MSMEs in the country. This study will guide the adaption of the business incubation approach in the tourism sector. Business incubation will contribute to a broader goal of establishing, sustaining and developing tourism MSMEs that will lead to economic prosperity in Tanzania. The study is an early wake up call for policy and decision makers to consider adapting business incubation as a tool for transforming MSMEs in the tourism sector in Tanzania.

Keywords: business incubation, MSMEs, tourism sector, Tanzania

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Poslovna inkubacija kao alat za transformaciju malih i srednjih turističkih preduzeća u Tanzaniji


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1. Introduction

The tourism industry is one of the main drivers of the economy in most countries, including Tanzania. In 2018/2019, the contribution of tourism was over 333 million jobs (10.3%) of all the jobs globally. Worldwide, the share of tourism in economies was over US $ 9.6 trillion (10%), while the total expenditure for inbound visitors was over US $ 1.8 trillion (6.8%) of all total exports in the period before the coronavirus (COVID-19) pandemic (Filep et al., 2022; Lim & To, 2022). According to the World Bank (2022), tourism is the backbone of Zanzibar’s economy, contributing over 60,000 jobs, 27 percent of GDP, and 80 percent of the country’s foreign exchange earnings. Conversely, tourism’s contribution to Tanzania’s mainland economy is 17.6 percent, and 25 percent of the foreign exchange earnings. Tourism offers over 1.5 million jobs in the country (MNRT, 2022).

The majority of newly established tourism businesses struggle to survive during the first few months or years of existence. Yet, the role of these young businesses in the economy of most developing nations is crucial. These businesses are a source of livelihood for many people as they provide employment opportunities to many young people. They also provide a source of revenue to the government through taxes. Further, these businesses are often the source of innovations that drive the economy (Azadnia et al., 2022; Yuan et al., 2022).

“Business incubators are entities that provide support to start-up companies, managing the obstacles faced by entrepreneurs and facilitating the hazardous process of business creation and growth” (Schiopu et al., 201, p. 474). An incubation centre provides MSMEs with a range of services needed to improve their business performance through the incubation process (Muathe & Otieno, 2022; Omar et al., 2022). These services include hands-on skills development, mentorship and other business advisory services (Sarabipour et al., 2022). An incubation centre is either a physical facility or a virtual platform that provides a set of clearly-defined support services to individuals, or small businesses, in their early stages of development, to help make the businesses grow and expand their services profitably and sustainably (Thomas & Ki, 2020). This study intends to emphasize the need for business incubation of MSMEs in the tourism industry for enhancing competitiveness of Tanzania as a tourist destination.

2. Literature review

2.1. Tourism business incubation in Tanzania

Since its independence in 1961, the tourism sector in Tanzania has been lacking key human resources, and incubation programs to drive its performance. Since the sector still lacks those human resources and incubation initiatives, the performance of the sector continues to be reduced and curtailed. Tanzania as a tourist destination may not become fully competitive if the existing conditions remain unchanged. Training institutions in the country offering a variety of training programs and qualifications include 9 Tourism Universities under the Tanzania Commission for Universities (TCU), 17 institutions under the Vocational Education Training Authority (VETA), and 37 tourism colleges under the National Council for Technical and Vocational Education and Training (NACTVET). None of these institutions offers tourism business incubation services in the country (Sanga & Anderson, 2020).

However, looking more closely at the details of the programs these institutions offer, we see there are some gaps in the curricula, including: (i) Limited capacity, especially of public tourism training institutions, in terms of scale, physical capacity, quality of programs,
resources and expertise, making it difficult to admit a large number of trainees; (ii) A mismatch between training programs and industry needs, arising from a failure of communication between demand and supply sides. Training courses that are offered do not, in many cases, provide a solution to any known industry needs; (iii) Lack of training for operators and owners of tourism businesses. In the training courses that are offered, business owners and operators are rarely targeted to attend; and (iv) Lack of focus on entrepreneurship so the training offered does not equip participants with entrepreneurial skills. Other gaps in the curricula include; (v) Training on the regulation of different business activities and compliance; (vi) The main focus is on traditional tourism management; (vii) Lack of clear career guidance in tourism. Unlike other professions, no clear career path has been developed within the tourism and hospitality domain; and (viii) A perceived mismatch between the programs of public and private training providers and industry needs (Buselic & Banko, 2021; Feng & Wu, 2021). This outlook paints a picture of a sector that needs a more focused and research based approach in tourism business incubation services (Sanga & Anderson, 2020).

The majority of governments and development partners in developing countries such as Tanzania find it necessary and important to support these businesses to survive, innovate and grow. Incubation programs are part of the broad range of interventions that are designed to assist these businesses. In general, incubation centres are set up to allow start-ups to experience accelerated growth, develop a structure that helps maintain business focus, access a variety of funding sources, have the needed exposure to industry leaders and mentorship, access low-cost space and flexibility, access expensive and sophisticated equipment, develop crucial business partnerships, access professional resources, and access networking opportunities (Ayodele, 2020; Wu et al., 2020).

2.2. Experiences in incubation centres in other countries

In the European Community, there is a Creative Accelerators for Sustainable Tourism initiative (CAST), which is a collaborative project that develops a network of incubators and accelerators, start-ups & SMEs, and financiers. CAST is responsible for promoting knowledge-sharing, the use of technology and collaboration across borders for sustainable tourism. Also, the organization supports the creation, business development and scaling-up of companies in the tourism sector through incubators and accelerators. CAST does all these by integrating creativity, art and design skills from Cultural and Creative Industries using cutting-edge technology, science and other relevant expertise (Klofsten et al., 2020).

Tourism Incorporated (TI) is an incubator for start-ups in the Tourism and Hospitality sector in Rwanda. It is run by Entrepreneurial Solutions Partners (ESP) in partnership with the Master Card Foundation under its ‘HangaAhazaza’ (Create the bright future) program. The TI aims to grow a vibrant community of youth and women business leaders in the tourism and hospitality industry. The TI program has supported many in turning their business ideas into actionable plans that can be easily implemented. It entails working with a coach and having a free co-working space, where one gets an opportunity to not only focus on their start-ups but also to collaborate with other entrepreneurs in the larger community. The TI offers access to business skills, and financing selects entrepreneurs who later receive the right mix of capacity-building, financing and mentorship to become leaders in the sector. Beyond capacity-building and access to finance, the top three entrepreneurs in this cohort receive seed funding of up to US $ 20,000 to help them build their ventures further. The TI program nurtures Rwanda’s top tourism and hospitality innovators, inspiring them to embrace entrepreneurship as a career path (Molamu, 2021; Rens et al., 2021).
2.3. Theoretical framework

Figure 1.1 depicts the relationship between key tourism players that are interrelated in the tourism ecosystem in Tanzania. The researcher categorized four major stakeholders, including; the MNRT and other government institutions, tourism incubators, MSMEs (incubates), and research and academia. The MNRT, other government institutions, research and academia provide support for incubation with the hope of economic development and job creation and skills transfer and commercialization. The government provides subventions in the form of loans and grants and expects that incubates will pay the Tourism Development Levy (TDL) and other taxes after attaining maturity. On the other hand, tourism incubators pay TDL and other taxes from their revenue. The research and academia provide sponsorship and obtain a return on investment through technology transfer and commercialization.

Figure 1: Tourism incubation theoretical framework

Accordingly, incubators around the world are usually attached to research and academia or public entity or to a community-based development entity to allow government or private sector to provide initial financial resources into incubation initiatives. A key aspect of this theoretical framework is that it conceptualizes resources (revenue and skills) between key players in the tourism sector. It is important to note that tourism business incubators are considered moderators of these two key resources. Given that, the effectiveness and efficiency of any tourism business incubation are directly related to the tourism development levies and taxes that the government provides to support MSMEs in Tanzania.

3. Methodology

This was a cross-sectional study, in which data were collected from several informants in the tourism ecosystem in Tanzania. The research adopted a qualitative method, involving 112 tourism respondents who were randomly drawn from over 1,214 tourism stakeholders including the sub-sectors of accommodation, tour operations, tourism investors, travel...
operators, tour guiding, arts and crafts in the country. Data were collected through focus group discussions (FGDs), key informant interviews (KIIs) and field observations. Respondents were carefully recruited to involve only those who were likely to provide relevant information. The focus groups composed of similar types of informants and each group had 8-10 participants. On the other hand, KIIs involved in-depth interviews, whereby informants were interviewed one-on-one.

With regards to FGDs, a variety of voices were heard in a short time. Participants were carefully recruited to involve only those who were likely to provide relevant information. The focus groups composed of similar types of entrepreneurs and each group had 8 participants. Group participants were organized in a manner that participants sat in circles during discussions. With in-depth interviews, key informants were interviewed individually, face-to-face. One of the advantages of in-depth interviews is that participants have the undivided attention of the interviewer and subjects can be explored in more detail. The role of the researcher was only to probe as much as possible on issues in order to gather rich information.

The data gathered were processed and analyzed qualitatively; the researcher first translated and categorized them into various themes and sub-themes based on the research objectives and research questions in both FGDs and in-depth interviews guides. Data from the in-depth interviews were transcribed and analyzed using thematic data analysis. Verbatim quotes were used to illustrate points of view while preparing this report.

4. Results and discussion

Over 90 percent of tourism MSMEs in Tanzania are located in the major tourist hotspots including Arusha, Dar es Salaam and Zanzibar. This study found that the tourism sector in Tanzania is multi-faceted and holds great potential for socio-economic development. In particular, the study established that: (i) The majority of tourism MSMEs focus on accommodation, food, beverages, and transportation services; (ii) The key value chain actors combine both direct services, such as accommodation, restaurants, curios/handicrafts, conferences, etc., and indirect services like tour operators for tourists; (iii) Limited product diversification and/or differentiation: most businesses making the same offer of products to clients (tourists); (iv) Weak business connections and networking relationships, making it difficult for them to share the benefits of the industry; (v) Highly-localized operations with a greater focus on leisure tourism; (vi) Stiff competition with more established MSMEs; and (vii) Limited focus on the image, branding and online presence as a way of marketing their products.

This study has revealed that the pilot Incubation Centres in the Tanzanian context should be established in a way that their activities are implemented with easiness and success.

“We badly need centres where we could meet for sharing and exchanging business ideas regarding tourism operations in this country. The tourism business is increasingly becoming very competitive, especially as all the countries struggle to recover from the COVID-19 pandemic”, said one of the representatives from the tourism associations in Tanzania in 2022.

This study has discovered that the incubation centre once established will offer a range of services which are very necessary for tourism MSMEs to start, and continue operating their tourism businesses successfully in Tanzania.

“Since I started this restaurant in September 2016, no one be it from the companies with successful tourism businesses or the government has ever come here to guide us on how best
we should conduct our businesses. The people we often see are the tax and levies collectors from the City Council and Tanzania Revenue Authority”. A quote from one of the providers of food and beverages in Dar es Salaam, 2022.

In addition, this study has discovered that, after the establishment of an incubation centre, formal training sessions may be organized to equip participants with technical skills in business management issues commensurate with their existing knowledge. This study further found that the incubator beneficiaries may be assigned specific mentors or coaches in line with their business ideas and aspirations. The mentors may be successful local entrepreneurs, in the tourism industry and providers of direct tourism business support services. In addition, the study observes that the mentorship approach may help in exposing participants to business opportunities and referrals since it is expected that the mentors will provide much-needed networking opportunities and introductions. However, the study notes that the focus and magnitude of the mentorship services shall depend on the specific needs of the MSMEs within their tourism business lines.

“My business is to sell art and crafts (curio shop) which is struggling to recover from the COVID-19 pandemic, and unfortunately neither the Ministry of Tourism nor the Tourism Confederation in the country has offered to provide us with ideas on how best we should revive our businesses”, said one of the Tour Operators in Arusha in 2022.

To align the incubation centres with the existing situation in the country, the pilot tourism business incubation centres are proposed to be established in Arusha, Dar es Salaam and Zanzibar. These three locations are the large business centres in Tanzania’s tourism activities and will provide easy access to multiple service providers, needed facilities and infrastructure, a vibrant business community and other necessary logistics. In addition, Dar es Salaam is Tanzania’s busiest city, chief commercial, most populated and industrial centre. Zanzibar is the home of beach tourism, cultural tourism, water sports, and a spicy island.

After the establishment of the incubation centres, services which will be offered include: tourism business mentorship, basic book-keeping skills, governance skills, resource mobilization skills, and monitoring and evaluation planning. The intended incubation services should be delivered in conjunction with different stakeholders and partners.

Such services will range from, coaching and mentorship, training, networking, counseling, career guidance, resource mobilization, exposure, and others depending on the context. Such services are going to be offered at different intervals and durations.

The formal training sessions shall be delivered using competency-based and experiential learning approaches. This training will be facilitated by a team of experts from the National Council for Technical and Vocational Education and Training (NACTVET) and/or Tanzania Commission for Universities (TCU) accredited learning institutions in the country. The training will consolidate participants’ core tourism industry-related competencies and equip them with complementary skills, and knowledge in entrepreneurship, leadership and management, financial literacy, digitalization, marketing, communication, time management, and teamwork. The materials will be designed to foster the successful utilization of adult learning approaches such as focus group discussions, field trips, role plays, demonstrations, and problem-based learning.

Mentorship will be done based on a mentorship plan which will be created and agreed upon by the participants and the mentors with clear objectives and timelines. The participants and mentors will hold scheduled meetings. Following each mentorship session, mentors will be required to prepare a report on participants’ progress and highlight issues requiring attention to reinforce the mentorship process. In addition, the study observes that the mentorship approach may help in exposing participants to business opportunities and referrals since it is
expected that the mentors will provide much-needed networking opportunities and introductions.

The Centre will also scan the business environment to identify emerging tourism business opportunities and emerging entrepreneurs as a way of inspiring the participants toward these emerging opportunities.

Adding to that, this study suggests that the participants will be organized into small groups of up to ten and will be required to meet every month to share experiences, ideas, and opportunities and to network with one another. Participants will also be required to assess their progress after every meeting and report on this to the Incubation Centre management.

There shall be sessions organized to discuss issues in the tourism business, innovation, trends, and policy. Such discussions will be conducted at the Incubation Centre but will be made available on various media platforms such as radio, TV, and social media. These engagements will create room for participants to brainstorm tourism business issues, draw public attention to tourism issues, and explore available opportunities in the tourism sector.

The Incubation Centre may also organize events to foster networking. This will be done to link participants to businesses and resource opportunities in society. These activities will be designed to link participants with potential investors and companies with the necessary resources for tourism business start-up and operation. The activities will include workshops, seminars, expert dinners and special events focusing on bringing together tourism businesses, industry players, regulators, sponsors, academicians as well as public officials to interact and share insights. Furthermore, the Centre will establish an alumni forum to support the aforementioned activities. Such engagements will enable participants to develop the soft skills necessary to further their businesses.

Based on the contextual background and best practices from across the world, this study proposes an operational model as well as the associated services for the tourism MSMEs business Incubator in Tanzania. The model also takes into account the required governance structure for its success as provided in the preceding sections. Given the context, Tanzania could adopt the Tourism Incorporated (TI) model in Rwanda. In Tanzania, the Incubation Centre is meant to be solely for start-ups in the Tourism and Hospitality sector of the country. It can be hosted by one of the high-learning institutions in the country, such as the Open University of Tanzania in partnership with the Ministry of Natural Resources and Tourism. Initial funding may be obtained through government subventions, fundraising and donor support.

This tourism incubation will pursue a mixed operational model, offering both physical and virtual resources. It is advised that business development services will be provided from a physical location, which will be identified among the existing tourism training institutions, preferably universities. Trainers, mentors and advisors will travel to the designated incubation centre at regular intervals to meet participants. The tourism incubators’ revenue-generated model will be based on fees and service charges. In addition, the services of the incubation centre may be accessed virtually to allow access to as many people as possible. An appropriate payment system would have to be put in place to allow access physically as well as virtually.

Incubation centres are funded in a variety of ways. Some are fully funded by the state or municipal authorities where they are located. Others are funded by international organizations with particular interests. In some cases, incubation centres are set up by university departments or corporate entities as a means of enhancing start-up success in given fields. In some cases, they are set up as purely private businesses whose revenue stream consists of the rental income as well as the fees for specific services.
5. Conclusion and recommendations

The incubation and career guidance centre are one way to support entrepreneurs, especially start-ups. If it is properly set up and managed, it will help the targeted tourism businesses to survive and grow. The success of the incubation programs will depend on the quality and relevance of the programs to the needs of the targeted businesses. This, too, requires the management of the centre to be innovative in terms of how they understand the environment and needs of local businesses and tailor the programs to address those needs. Tanzania could adopt the Tourism Incorporated (TI) model in Rwanda. It can be hosted by one of the high-learning institutions in the country in partnership with the Ministry of Natural Resources and Tourism. Initial funding may be obtained through government subventions, fundraising and donor support. The Incubation Centre in Tanzania should be exclusively meant for start-ups in the Tourism and Hospitality sector in the country.

The failure of the majority of start-ups in the tourism sector in Tanzania is due to the inadequate business incubation services in the country. This implies that the adoption of business incubation initiatives can contribute to a broader goal of establishing, sustaining and developing stronger tourism businesses that will lead to economic prosperity in Tanzania.

The study was conducted while Coronavirus (COVID-19) pandemic, especially COVID-Omicron XBB variant, was still unfolding in Tanzania and across the world. Data were mainly collected from the tourism businesses through focus group discussions (FGDs), key informant interviews (KIIs) and field observations. Tourism businesses are in constant interactions with a variety of local and international clients from all the corners of the world. Bearing that in mind, the researcher had to observe all safety and health guidance provided by the World Health Organization (WHO), and the Ministry of Health in Tanzania for protecting himself, respondents, and all the people involved in the study. The measures included observing social distance, using sanitizers, washing hands with soap before and after every interview session, and wearing masks in some instances and use of telephone interviews, especially with the KIIs, where deemed necessary. Furthermore, tourism business establishments’ operators are busy throughout. Getting hold of the representatives from the selected businesses as informants for interviews in this study was a task that required professionalism for action, particularly the understanding of the tourism business ecosystem.

Given the dispersed geographic locations of the potential incubates in Tanzania, it is advisable that, as a first step, the main incubator is located where the highest concentration of potential businesses to be incubated will be found. This will also depend on whether a facility with enough space to accommodate the Centre can be identified within existing public facilities.

Further studies are needed to come up with guiding frameworks for each tourism business incubation service and other studies may aim at evaluating the performances of each incubation centre.

Conflict of interest

The author declares no conflict of interest.

References


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